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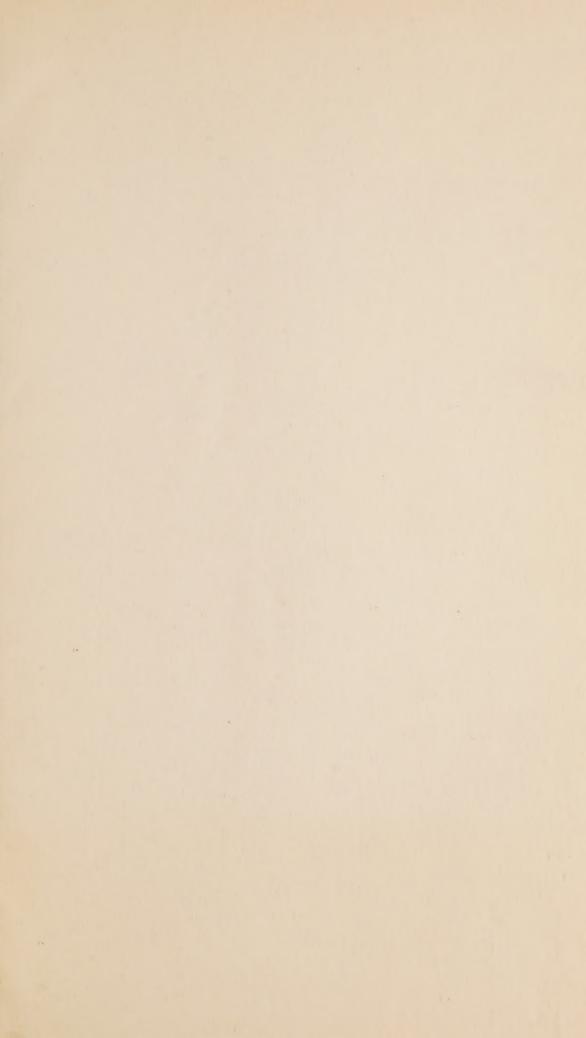
Hniversity of Toronto

by

Hon. C.P. McTague

Canada. Royal commission on transportation.
Hearings. v. 105-105. 1960.

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# ROYAL COMMISSION

ON

# TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

105

DATE:

21 Oct 1960

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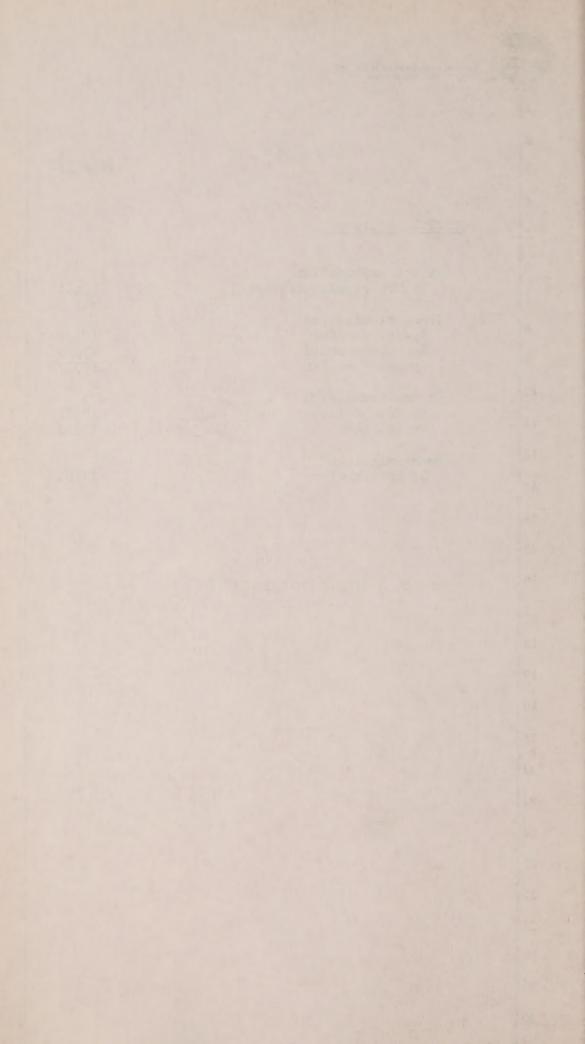
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#### ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in the Court Room, Board of Transport Commissioners Offices, Ottawa, Ontario, on the 21st day of October, 1960.

Mr. M. A. MacPherson, Q.C.

Mr. H. Anscomb

Mr. A. H. Balch

Mr. R. Gobeil

Mr. H. A. Mann

Mr. A. Platt

Chairman

Member

Member

Member

Member

Member

COMMISSION COUNSEL

Mr. A. G. Cooper, Q.C.

Mr. G. S. Cumming

Mr. H. W. Ellicott

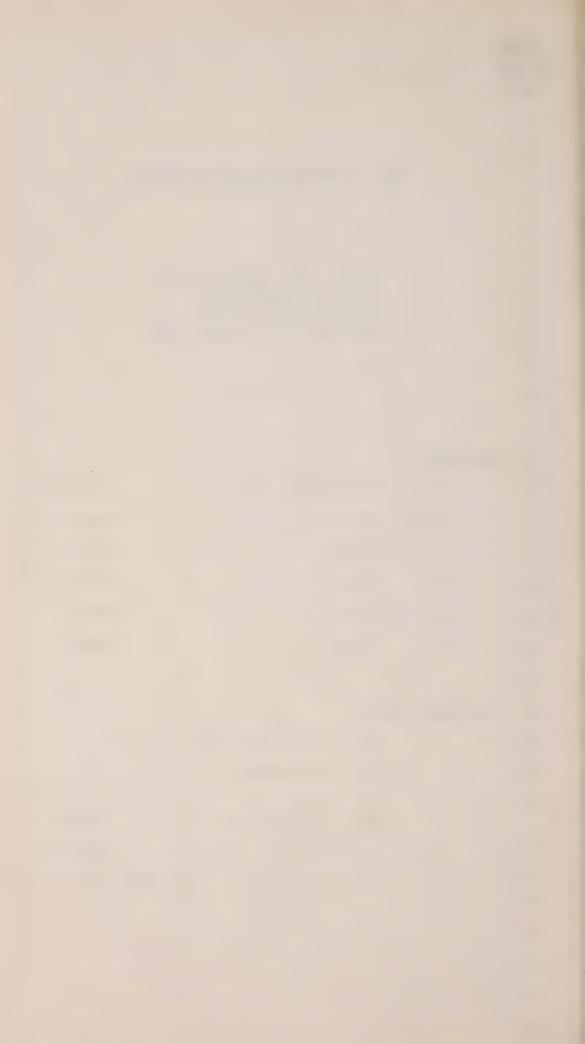
Adviser

Mr. F. W. Anderson

Secretary

Major N. Lafrance

Assistant Secretary



Little, dir. (Frawley)

1 2

Ottawa, Ontario, Friday, October 20, 1960.

On commencing at 9:30 a.m.

THE CHAIRMAN: Order, please. Mr. Frawley?

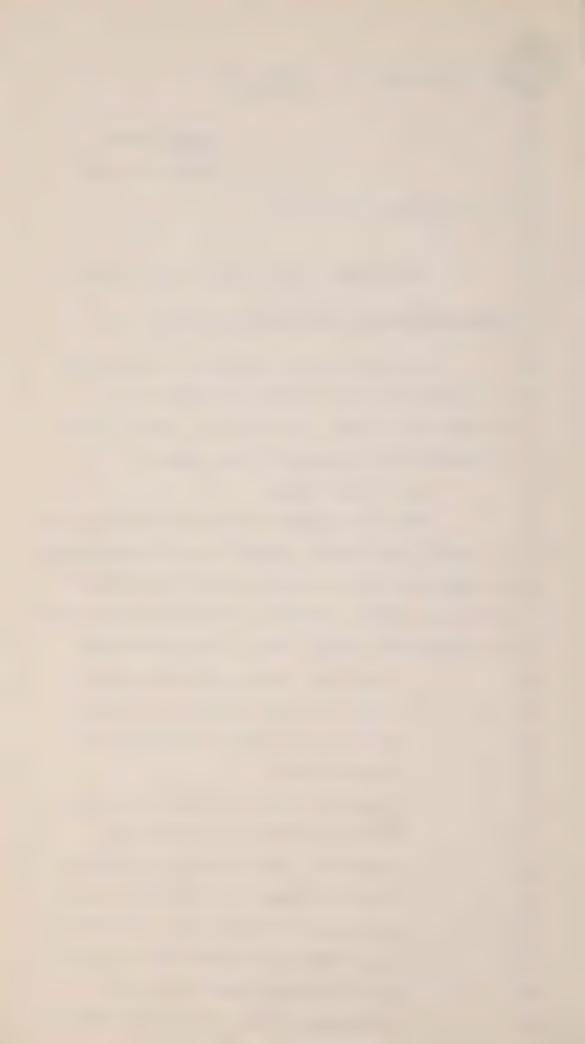
### DIRECT EXAMINATION BY MR. FRAWLEY (resumed):

Q. Thank you, Mr. Chairman. Dr. Little, we had reached the bottom of page 5 yesterday when we adjourned for the day, and if you will, please, pick it up from there and continue with your evidence.

A. Yes, Mr. Frawley.

There are a number of reasons why costs related to length of haul did not increase as much percentagewise as costs not related to length of haul in the western, eastern and southern districts of the United States during the period 1950 to 1958. Some of these reasons are:

- 1. Innovations, such as centralized traffic control and dieselization, have had more cost-reducing effect in line-haul than in terminal areas.
- 2. Much of the fixed investment in the linehaul area, such as road bed and rail
  investment, have not required replacement
  and do not depreciate at as rapid a rate
  as do many of the fixed cost investments in
  the terminal areas -- and these line-haul
  fixed investments make up a greater
  percentage of total line-haul costs than do

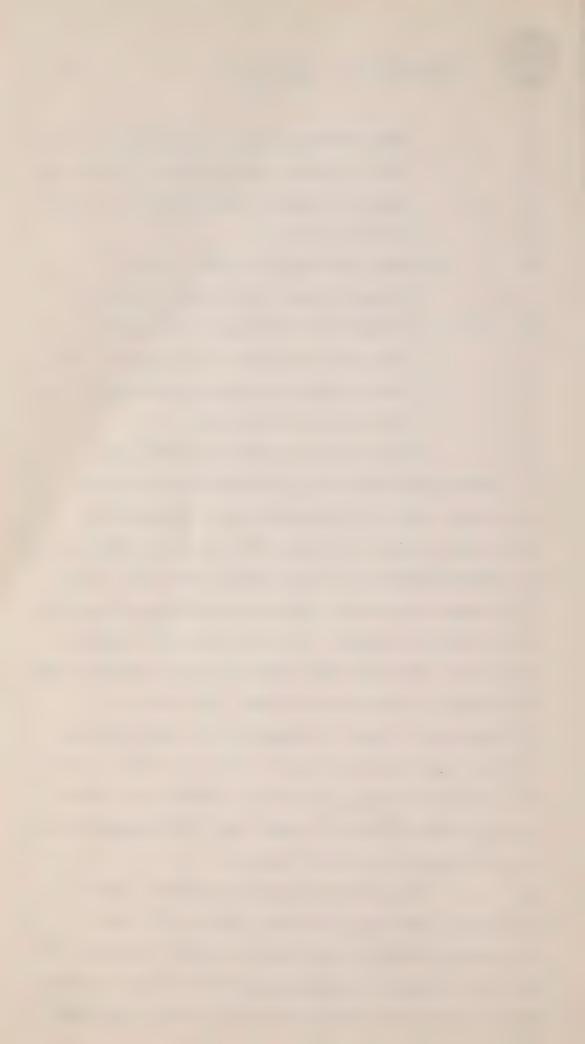


fixed investments in the terminal area of rail costs. This has tended to result in a greater addition toterminal fixed costs than to line-haul fixed costs.

3. Labor costs make up a great per cent of terminal expense than line-haul expense.
Consequently, the significant increases in labor costs, as a part of total railway costs, have had more influence in increasing terminal costs than line-haul costs.

reducing innnovations have not been instituted in the terminal areas of the Canadian railway transportation system. Nor is it inferred that there will be fewer cost-reducing innovations in the terminal areas than in the line-haul areas of rail transportation during all periods of time in the future. It is well known that improved materials handling systems and many other innovations have materially reduced terminal costs. But there is considerable evidence in support of the conclusion that factor cost increases (cost of an hour of labor or a unit of electric current, for example) have been more offset by innovations in the line-haul than in the terminal area of railway costs over the long run.

The statistics presented in Tables I and II indicate that during the period 1950 to 1958, costs related to length of haul did not increase as much as did costs unrelated to length of haul in the eastern, western, and southern districts of the United States. This means



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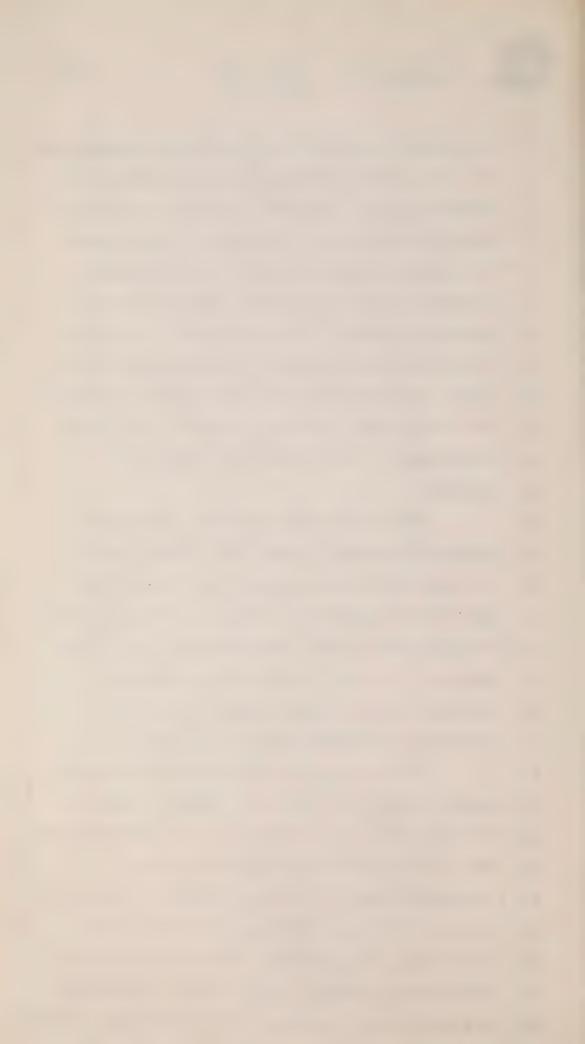
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that during this period it was becoming increasingly more costly per ton-mile to handle short-haul traffic than long-haul traffic. While these statistics pertain to transportation costs for freight in the United States, the economic reasons responsible for these growing differences in costs for varying lengths of haul are applicable to Canada. The economic causes responsible for costs unrelated to length of haul increasing more rapidly, percentagewise, than costs related to length of haul -- and I might add here, from 1950 to 1958 in the United States -- are not restrained by national boundaries.

If it is true that line haul costs have not increased as much as terminal costs, the application of a flat percentage rate increase places an undue cost burden on the long-distance shipper. It fails to give to the long-distance shipper the advantages of actual cost reductions. It forces the long-distance shipper to subsidize the short-distance shipper by the extent of his overpayment through excessively high rates.

If rail carriers justify an application for a change in rates on the basis of a change in costs, a flat percentage change in rates will not adjust proposed rates for varying distances to new costs under circumstances where line-haul and terminal costs have not increased by the same relative amounts. Under these circumstances, flat percentage changes tend to destroy the relationship between cost and rates. Assuming that the uniform scale of mileage class rates properly reflects





costs before a change of railway costs is incurred, a rate change formula intended to properly reflect changes in costs through changes in rates for varying shipping distances must:

- Q. Before you proceed to those two numbers, the uniform scale of mileage class rates -- you can identify that by reference to the Judgment of the Board which came into effect and the uniform scale of mileage class rates which came into effect in Canada on March 1, 1955?
- A. Yes. I so refer to it in that way at a later point.
  - 1. Be capable of computing an over-all percentage change in rates for each mileage block so as to correctly reflect changed costs when the percentage change in costs related to length of haul has been different from the percentage change in costs not related to length of haul.
  - 2. Be capable of applying the computed overall percentage increase in rates for varying
    distances to existing tariffs, thereby
    eliminating the need of changing existing
    tariffs each time a change in rates is
    required.

These are the things that must be accomplished by any kind of a new proposal.

THE COST BASED RATE INCREASE FORMULA.

Q. Just for clarity's sake, it is rather



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obvious this cost based rate increase formula is what you are introducing in this submission?

A. That is correct.

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Rate increases can be applied so as to reflect changes in costs for varying lengths of haul. This can be accomplished, without replacing the tariffs in existence, by the computation of a new uniform scale of mileage class rates for class 100 rates based upon the measured changes in costs related and not related to length of haul. The difference between the new class 100 rate for each mileage block and the old class 100 rate then may be used as the basis for determining the per cent of change in class 100 rates for each mileage block. The cost computed per cent of change for each mileage block may then be distributed for application to existing tariffs for the purpose of determining all authorized rate changes. The computation of the new uniform scale of mileage class rates for class 100 rates can be easily and quickly computed, and the per cent of rate change for each mileage block can be provided on a single sheet of paper. The procedure for accomplishing this will be hereafter be referred to as the cost based rate increase formula.

Q. Dr. Little, it may help if I were to ask you, you seek to compute a new uniform scale of mileage class rates for class 100 rates. You are not doing that for the purpose of interfering or amending what is now in force in Canada as the class 100 in the uniform scale of mileage class rates?

A. Not in any way.



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- Q. May I say that it is part of your procedure, part of your working papers, leading to the formula which you are presenting?
- A. That is right. I am taking the cost mileage class scale and relating that only to the increase in the measured cost during the period in which costs have reputedly been increased.
- Q. And raising it for the percentage which you do say should be added to the existing ones to bring about a rate increase?
  - A. That is right.
  - Q. All right.
- A. The explanation of the application of this Formula is as follows:
  - (a) The Cost Based Rate Increase Formula:

    (a) The Cost Based Rate Increase Formula

    provides a means of changing rates so that

    the new Uniform Scale of Mileage Class Rates

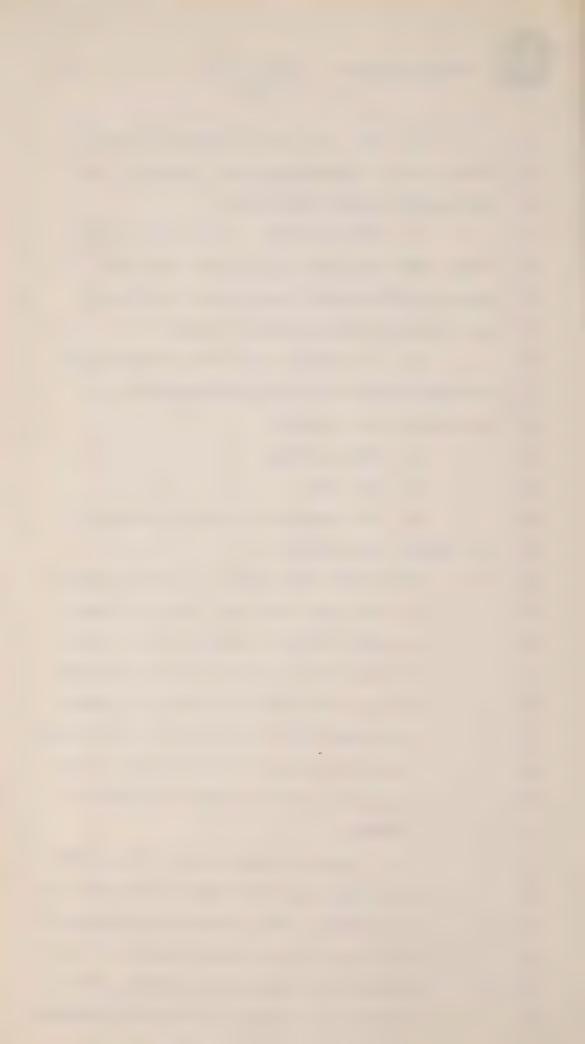
    and all other rates authorized for a general

    rate change will accurately reflect separately

    computed increases in Costs Related to Length

    of Haul and Costs not Related to Length of

    the Haul.
    - (b) Taking the taper of the Uniform Scale
      of Mileage Class Rates which existed prior to
      the change in Costs Related and Not Related to
      the Length of Haul as being proper, it merely
      changes the Uniform Scale or Mileage Class
      Rates so as to reflect the measured percentage
      extent of change in Costs Related and Not



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corrective measure?

Related to Length of Haul.

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- Traffic covered by the Cost Based Rate Increase 2. Formula:
  - (a) The Cost Based Rate Increase Formula may be applied to all rates authorized by the Board of Transport Commissioners to be increased.
  - (b) As a procedure for replacing the norizontal rate increase method, it may be used to apply to changes in the same rates formerly covered by the horizontal method or rate increases.

I think this is a very central point.

- Will you go back to (b) where you say:
- ". . . it merely changes the Uniform Scale of Mileage Class Rates so as to reflect the measured percentage extent of change in Costs

Related and Not Related to Length of Haul."

Again you are taking this, as I understand it, merely as a means to optain the formula which you seek to recom. mend to this Commission for application?

A. That is right.

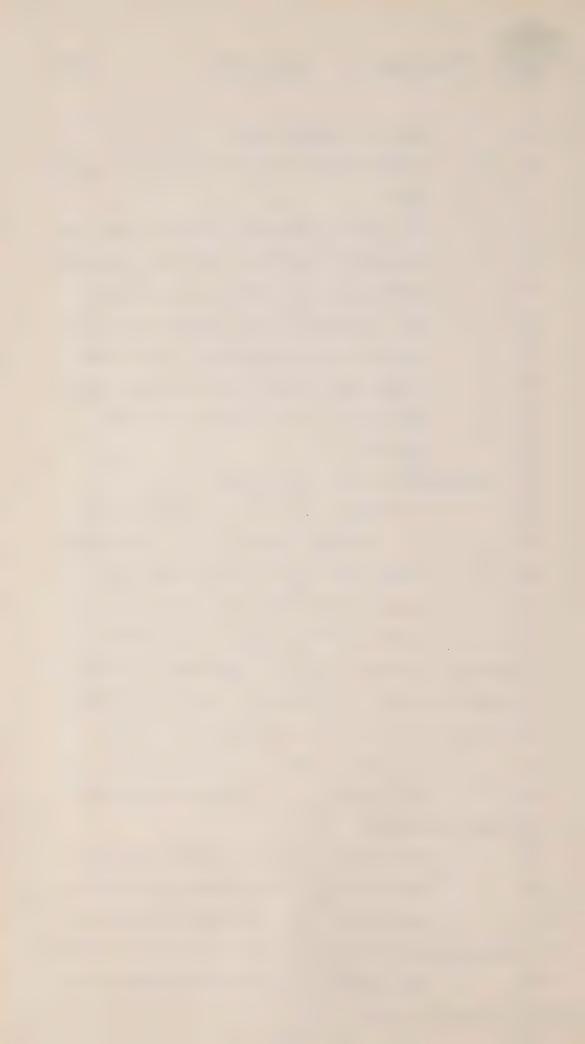
THE CHAIRMAN: In (b) would you take out the taper altogether?

THE WITNESS: Would you repeat that, sir?

THE CHAIRMAN: Are you taking out the taper?

THE WITNESS: The taper will be altered in accordance with the changes in the cost, that is correct.

THE CHAIRMAN: The taper is now there as a



as costs have increased during the given period of time as measured by the rail carriers and the Board of Transport Commissioners, then these costs which have been measured are applied, are simply added on to the old taper.

THE CHAIRMAN: The old taper is still used?

THE WITNESS: And modified by the extent of cost change, the measured cost change.

MR. FRAWLEY: Q. For rate increase purposes?

- A. Yes.
- Q. Let us be perfectly clear: when you are completely finished and assume that the Board adopts in toto your recommendation the present Class 100 in the Uniform Scale of Mileage Class Rates prescribed by the Board in 1955 will not be changed one iota, it will still be there?
- A. It will be changed to the extent that costs have increased percentagewise.
- Q. You told me a moment ago that you are not seeking to change the existing scale of class rares. mileage class rates?
- A. That is not quite correct. I am changing it to the extent that measured costs have been increased.

THE CHAIRMAN: The figures would change?

THE WITNESS: When you have a taper with a rate scale if the costs do not in fact go up in step in costs related and not related to length of haul the



taper will be altered in accordance, in fact, with the changes in these relationships of costs. So, you start with a given assumed correct rate scale and you measure what the actual cost change has been and simply add on to that rate scale the measured changes in the costs.

If there are remarkable varying relations of changes between the costs related and not related to length of haul then this alters the scale to that extent.

THE CHAIRMAN: After the increase has been applied?

THE WITNESS: After the increase has been applied.

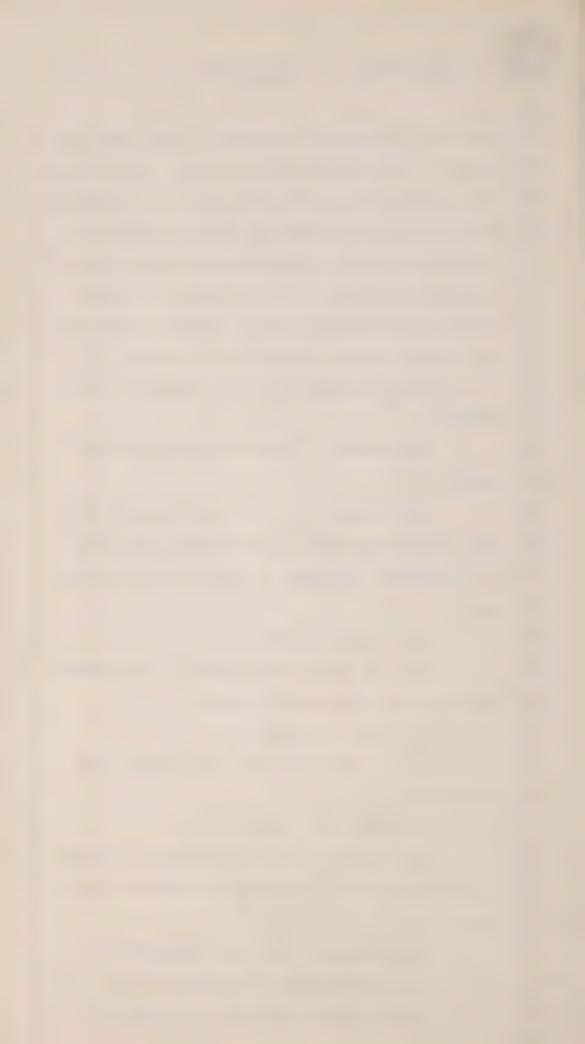
MR. FRAWLEY: Q. In other words, if the Class 100 rate was today \$1 for 50 miles it is going to be increased; therefore, it is going to be something more?

- A. That is correct.
- Q. It is the determination of the something more that your paper seeks to present?
  - A. That is correct.
- Q. I think as far as I am concerned that clarifies it.

MR. SINCLAIR: It does, yes.

MR. FRAWLEY: Well, it clarifies it, but how my friend may wish to un-clarify it is something else again.

THE WITNESS: (c) The Formula does not seek to determine whether the existing
Uniform Scale of Mileage Class Rates for



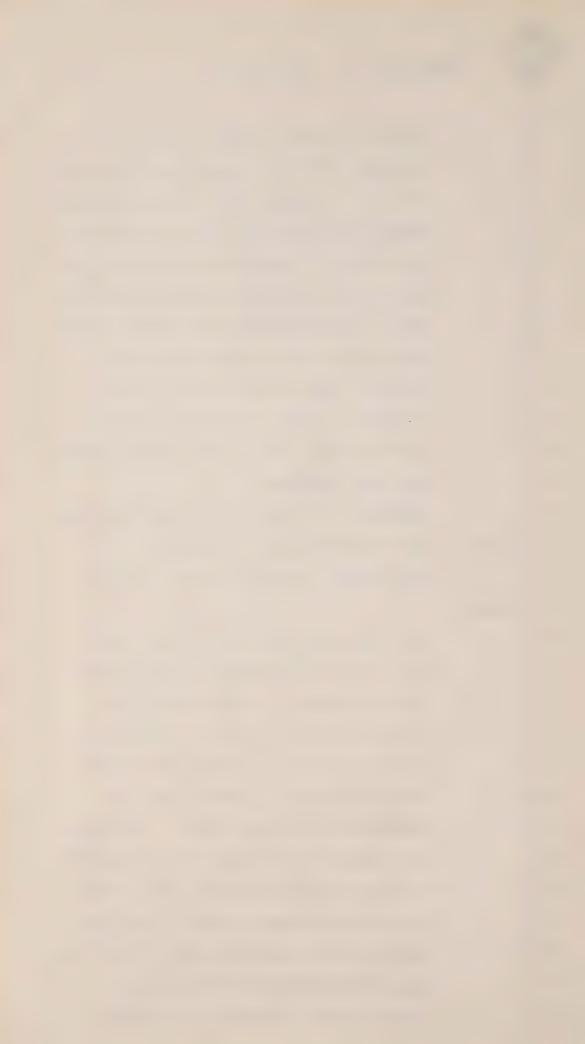
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application between points in Canada is
equitable, proper, or accurate as a reflection
of costs. It assumes that the Uniform Scale of
Mileage Class Rates as prescribed and adopted
by the Board of Transport Commissioners as of
March 1, 1955 represents an equitable scale of
rates. The only change which the Coss based
rate increase Formula will make over the
course of time in this scale of rates is
to change the rate for each mileage block to
the extent that line-haul and terminal railway
costs have increased.

answer to what they have been arguing about?

THE WITNESS: Precisely, that is my exact answer.

the Costs Related to Length of Haul and the Costs Not Related to Length of Haul for any given period. It does not determine how much Costs Related to Length of Haul and/or Costs Not Related to Length of Haul have changed during any given period. Its application requires that the extent (percentagewise) of change in Costs Related to Length of Haul and Costs Not Related to Length of Haul and Costs Not Related to Length of Haul and Costs Not Related to Length of Haul since the time of the last rate change be determined. Whether this determination is made by the rail carriers subject to review by the Board of



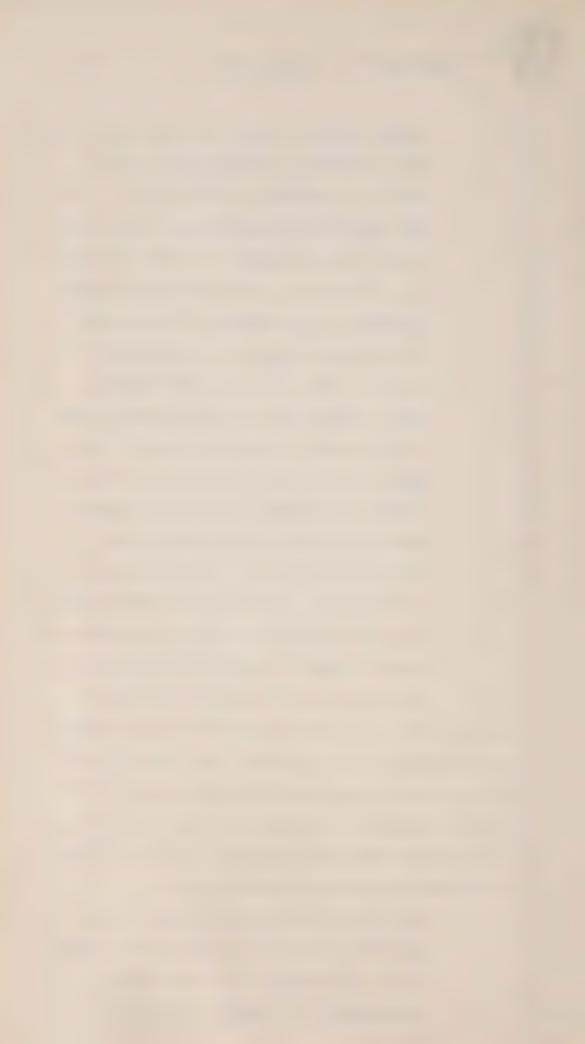
Transport Commissioners, or by the staff of the Board of Transport Commissioners, is not a matter for suggestion by this proposal. The Cost Based Rate Increase Formula assumes that the cost increase data will be made available.

the cost increase data will be made available.

(e) In Table III, which shows the procedure for computing the increase in railway rates for each mileage block, the existing rate in the first mileage block of 1-20 miles was used as representative of the terminal costs for 100 pounds of Class 100 freight. Since terminal costs do not change with the length of haul, the 62 cent figure was the assumed terminal cost part of the Class 100 rate for each mileage block. This was purely an assumed figure. It should be emphasized that the use of the Cost Based Rate Increase Formula is not dependent in any way on the validity of the assumed 62 cent terminal cost figure.

In short, where rerevides the information will likewise give the terminal cost figure and these terminal costs will be altered in accordance with the increase in the cost not related to the length of haul each time the carriers come forward and ask for an increase in rates in accordance with their increase in costs.

But it is recognized that the nature of the percentage increase in rates for each mileage block is affected by the figure used as representative of terminal costs. The



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assumed. The subtraction of 62 cents
from the Class 100 Rate for each mileage
block leaves that part of the Class 100 Rate
which may be regarded as Costs Related to
Length of Haul.

I think at this point I should stop and if you will turn to Table III we will see how this was actually computed. We find on Table III, column 1, the mileage blocks 1-20, 21-25, 26-30 miles, and so forth.

THE CHAIRMAN: All of which are regular?

THE WITNESS: All of which are regular and those are the Canadian mileage blocks as given to us as are in effect at the present time. We have adjacent to this in column 2 the rates for each of these mileage blocks for Class 100 Rates at the present time. I assume for the number that the Class 100 Rate for the first mileage block would be essentially the terminal cost -- that was an assumed figure. If this is in any way incorrect then I suggest that figure be altered. In accordance with the determination clumns 3 and 4 are going to segregate in the Class 100 Rate that part which is terminal and that part which is line haul, and if it is assumed that the 62-cent figure is the terminal cost then we simply subtract 62 cents from each of the rates, Class 100 Rates, for each of the mileage blocks to determine the line haul part of that rate.



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63 633 6 .

We find them, for example, in the 21 to 25 mileage block, if  $62\phi$  of  $67\phi$  are terminal costs, then in column 3 we put  $62\phi$ .

In column 4 the difference between  $62\phi$  and  $67\phi$  (5 $\phi$ ) would be the line haul costs.

I have assumed here purely for purposes of illustration that terminal costs increased by 10% and that line haul costs increased by 5%. These figures would be given by the rail carriers to the Board of Transport Commissioners.

Q. Well, we have three basic assumptions:

One, that the terminal costs are 62¢; the amount of increase in costs not related to length of haul is 10%, and the amount of increase in cost related to length of haul is 5%?

A. That is correct.

THE CHAIRMAN: And you are just separating the sheep from the goats?

THE WITNESS: Exactly. Then we multiply the 10% times  $62\phi$  and the 5% increase in line haul costs times the  $5\phi$  of the  $67\phi$  figure, and we arrive at the increase for the line haul and for the terminal areas and add them on to the old rate to arrive at a new rate in column 7

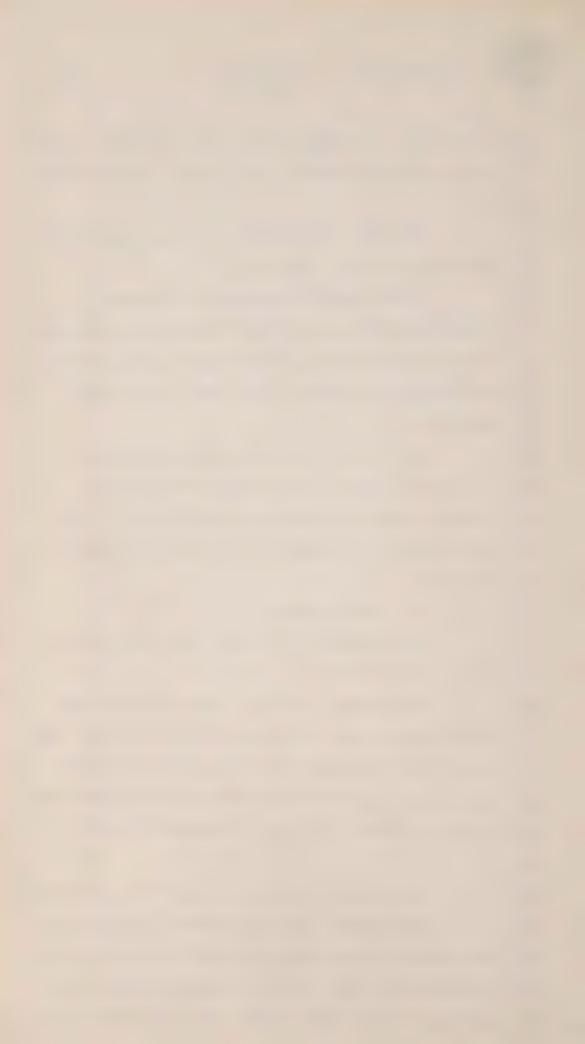
THE CHAIRMAN: Where do you get those percentages?

THE WITNESS: They are provided by the carriers

when they come forward asking increases in rates because

of increases in costs. Instead of saying, "generally

speaking, we need a 10% increase", they are going to say,



"we have two facts to present to you: our terminal costs

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12 and the other 7?

THE WITNESS: Exactly. It could be any series of figures.

COMMISSIONER ANSCOMB: He could assume one was

MR. SINCLAIR: Or that both were the same?

have increased by so much percent and our line haul costs by so much percent." With these figures we can then determine what the new figure would be.

THE CHAIRMAN: You took that from the railways?

THE CHAIRMAN: You took that from the railways?

THE WITNESS: Or the Board of Transport

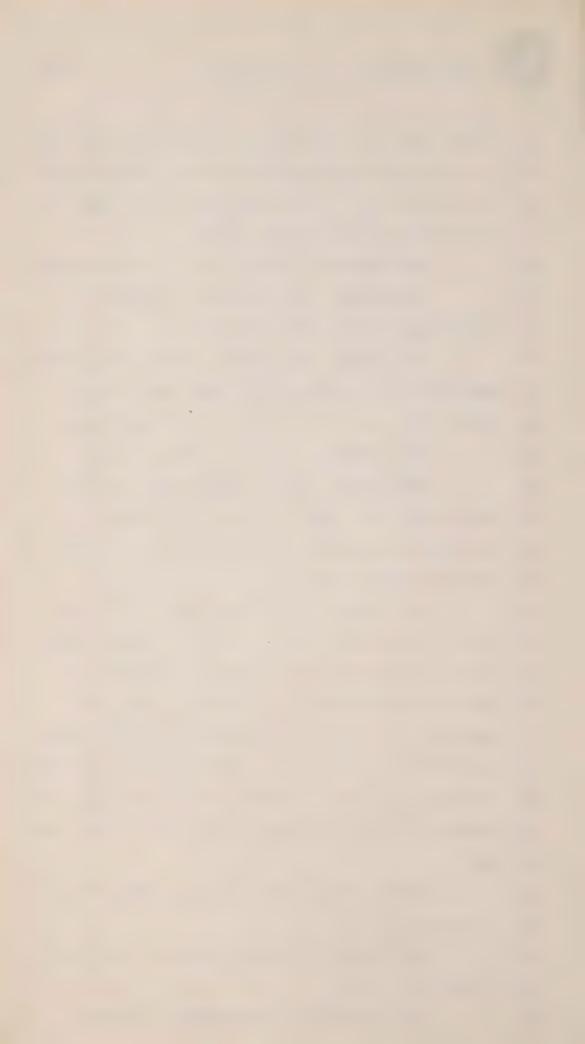
Commissioners, whatever the case may be.

MR. FRAWLEY: The witness certainly did not take anything from the railways, not having been offered anything from the railways, but he made the assumption.

THE CHAIRMAN: I meant from their evidence.

THE WITNESS: Yes, the percentages which are applied times the terminal and line haul costs are presented and not assumed in the formula itself. They are given, measured costs.

MR. FRAWLEY: Let us clear this up in view of the fact I have heard a "what?" from the counsel table. I want to make it clear the witness did not take the 10% and the 5% from any C.P.R. evidence to date. He assumed it, He said, when they rest go before the Board, and each time they do go before the Board, they will have their application for an increase in rates based upon the difference in the cost increase between terminal and line haul.



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MR. FRAWLEY: Q. Just so the record will not

We therefore arrive at a new class 100 figure.

THE WITNESS: Or that both were the same, yes.

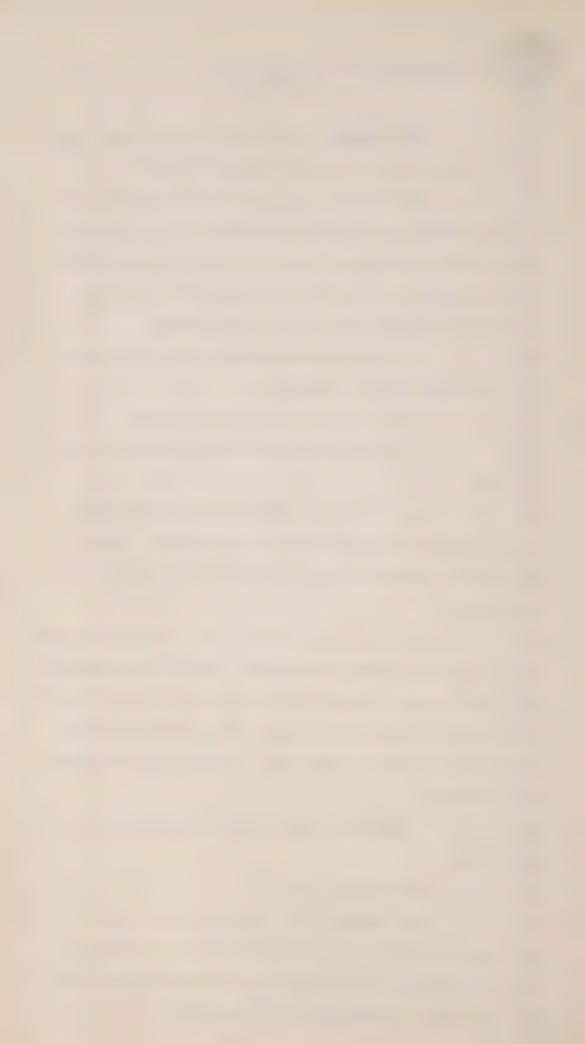
be cluttered up by these interchanges from Mr. Sinclair. your basic assumption, based on the United States data. is that there is a difference in the rate of increase between terminal costs and line haul costs?

- A. During these years of 1950 to 1958 there was a very distinct difference.
  - Q. So, it could not be 10% and 10%?
- A. Not in the United States between 1950 and 1958.
- But you say whatever the fact discloses Q. as to the increase in line haul and terminal, that is the data the railways will be expected to present to the Board?
- A. Yes. Now, the final step: we have brought in column 7 a new class 100 rate. The difference between the new class 100 rate and the old class 100 rate divided by the old class 100 rate gives the percentage of total increase in that mileage block. That is the percentage of change.

COMMISSIONER ANSCOMB: Which, in this case comes to 963.

THE WITNESS: Yes.

MR. FRAWLEY: Q. Before you leave that, I suggest you fill in the blank at the top of column 7, and it might be helpful if the Commissioners would pencil in a figure: what would the figure be?



- A. We have added 10% application to the  $62\phi$  rate which would give us  $6\phi$ , as we have indicated in column 5, and when that  $6\phi$  is added to  $62\phi$  it would make it  $68\phi$  in column 7 instead of a blank there.
  - Q. Would you now proceed, please?

Α.

- simply takes the per cent of change in (1)

  costs related to length of haul, (2) costs

  not related to length of haul, and applies

  these given percentages times their

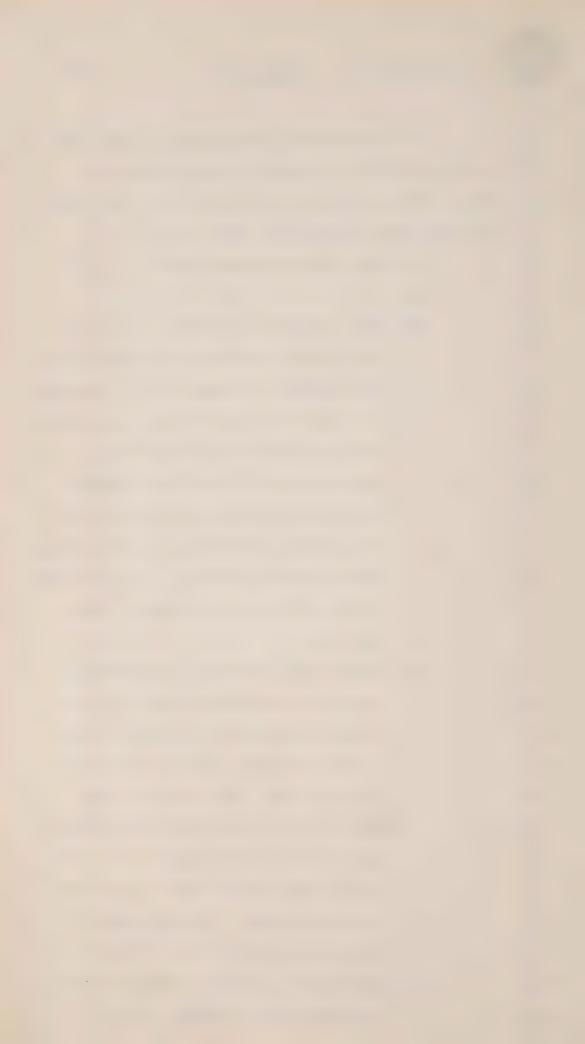
  respective parts of each class 100 rate

  for varying mileages to arrive at an over
  all percentage rate change for each mileage

  block as shown in Table III. The new class

  100 rate reflects the increase in these

  two costs.
- applying the percentage change in costs related and not related to length of haul to their respective portions of existing class 100 rates. The addition of the change in costs related and not related to length of haul to the existing class 100 rate for that mileage block provides the new class 100 rate. The difference between the new class 100 rate, divided by the old class 100 rate gives the over-all





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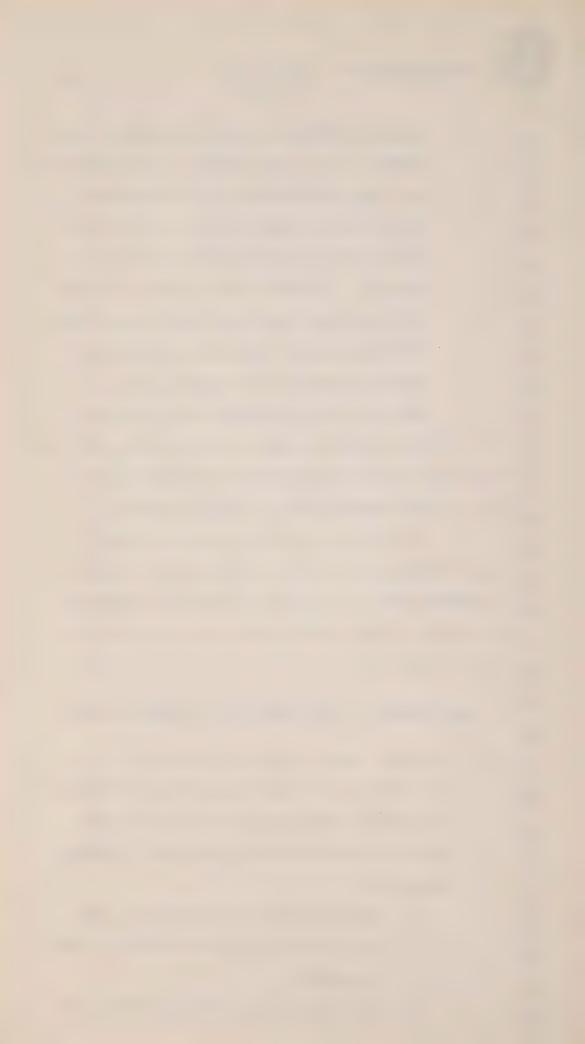
percent increase in rates applicable for that length of haul. For example, if the determined new class 100 rate were \$1.07 per hundred—weight, and the existing class 100 rate were \$1.00, the percent of increase would be 7 percent. All rates subject to the cost based rate increase formula for which the \$1.07 rate for the class 100 rate applied would take a 7 percent increase in the existing rate.

what we do here is use the class 100 rate to arrive at the percent of change in the new rate, and then apply this determined percent times whatever the rate may be on the commodity that is actually moving.

If the new class 100 rate were \$1.07 per hundred-weight, but the rate on the specific shipment contemplated were \$.90 for this lower class commodity, the increase in the existing rate would be 7 percent of \$.90, or about \$.06.

## 3. How to Apply the Cost Based Rate Increase Formula:

- (a) Table III, page 27, has been constructed to illustrate how an over-all percentage rate change could be computed through the use of the cost based rate increase formula under the following assumptions:
  - (1) That the class 100 mileage scale rates are currently effective between all points in Canada.
  - (2) That the increased cost percentages are





R P

5% and 10%, respectively, for costs related and not related to length of haul.



(3) That the class 100 rate in the first

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mileage block (1-20 miles) is

representative of the terminal cost share

of class 100 rates for each mileage block.

It will be noted that column 8 of Table III

(b) It will be noted that column 8 of Table III

presents the per cent increase to be applied to

existing class 100 rates in order to arrive at the

new class 100 rate. Table IV provides the results

of Table III by presenting the mileage blocks in

column 1, the existing class 100 rates in column

2, and the percent of increase in column 3, to be

applied to existing class 100 rates to arrive at a

corrected new class 100 rate which reflects changes
in costs.

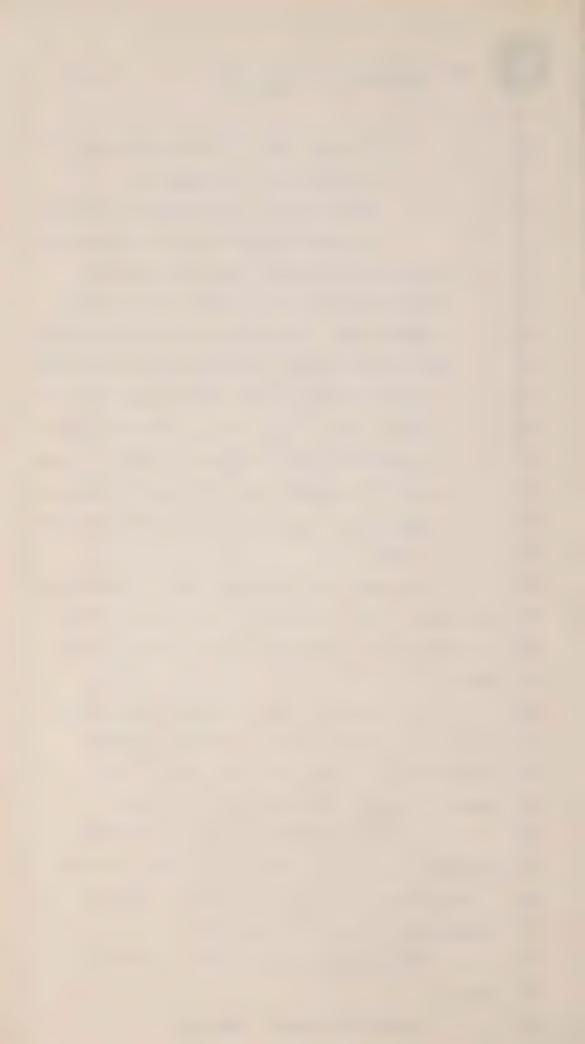
We might take a glance at Table 4 before we go any further. That is on page 31. Now, actually Table 4 is nothing but a condensation of three of the columns of Table 3.

Q. The first thing to observe about Table 4 is that it is a double table. There are just three columns and the mileage increases. So it is just columns 1, 2 and 3 and columns 1, 2 and 3 again.

COMMISSIONER MANN: I wonder if Dr. Little
could tell us whether in Table 4 the heading of column
1, and similarly the heading of column 4 should be
"consecutive" instead of "competitive"?

THE WITNESS: That is correct. That is correct.

COMMISSIONER MANN: Thank you.



THE WITNESS: What we have done then is to just take the mileage blocks, the existing class rate, and the percent increase to be applied from table 3 and made a new table out of it.

COMMISSIONER MANN: The word should be "consecutive" in the heading, rather than "competitive"?

THE WITNESS: Yes, that is right.

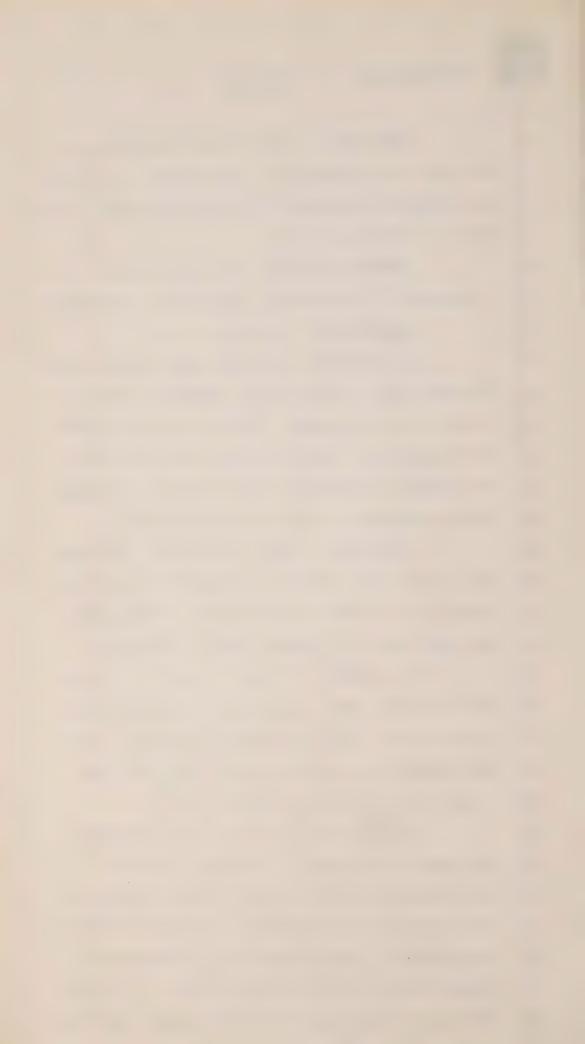
MR. SINCLAIR: I am sorry, Mr. Frawley. Now, in view of the fact that he has changed the first column on 4, I am having a little difficulty with the first column on 3. He has involved the basic point in the mileage on the first column of table 3. I thought the way the table was set up before was right.

THE WITNESS: This is exactly the same thing.

The mileage blocks are set up on table 4. Rather than putting one to twenty and twenty-one to twenty-five, I have simply put the longest mileage of that block.

MR. FRAWLEY: Q. Now, Dr. Little, I do not want to quarrel with the correction you have made as a result of Mr. Commissioner Mann's question. You used the expression on page 31, as the caption for column 1 and column 4 "Competitive Mileage Blocks".

Now, just let us examine this. Looking at the heading of the table: "Statement of Percent Increased to be Applied to Class 100 rate according to the Cost Computed Rate Increase Formula for Consecutive Mileage Blocks. Each Mileage Block Encompasses all Mileage from the Previous Mileage Block". I supposed because of that you agreed with Commissioner Mann that



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consecutive would be a more accurate word than competition. Is that correct?

A. I did not understand him to be referring to that. I think he meast consecutive leaving off at 850 and then going consecutively to 875. That was my understanding.

commissioner mann: That is right. Column 1 on Table 4 which is now headed "Competitive Mileage Blocks". I asked you whether it should be headed "Consecutive" instead of "Competitive". And, similarly, in column 4 which is merely a continuation of column 1 for higher mileage blocks, again I wondered whether the word "Competitive" should not have been "Consecutive" to bring it in line with the word "Consecutive" in the heading of the table as such.

THE WITNESS: Could I ask a question on that?
Why did you select the word "Consecutive"? Did you
find that this was inconsistent with table 3 in any
way?

COMMISSIONER MANN: No.

THE WITNESS: I was simply following the same terminology but the term, as I see it, could be just as accurately applied because they are consecutive mileage blocks.

COMMISSIONER GOBEIL: Are they competitive?

MR. SINCLAIR: My point, Mr. Chairman, is the witness chose that word accurately because of the fact that he has a base any point mileage on the basic statistics from which this is drawn, and this is shown





in table 3. Once he has changed it, as he has changed it now, from "Competitive Mileage Blocks", which means something which we will explore later, he then has got a difference operating between these two tables.

THE CHAIRMAN: Well, there is a difference in semantics?

MR. SINCLAIR: No, no.

MR. FRAWLEY: Oh, no.

THE WITNESS: If you will notice on table 4, we made the explanation that you are referring to here, and at the head of table 4: "each mileage block encompasses all mileage from the previous mileage block".

Rather than giving a block of one to twenty miles, if this is what you are referring to, I have clarified that in the title, saying "Each mileage block encompasses all mileage from the previous mileage block".

MR. FRAWLEY: I think that is clear, Dr. Little.

Would you just go back to the heading you gave column 1,

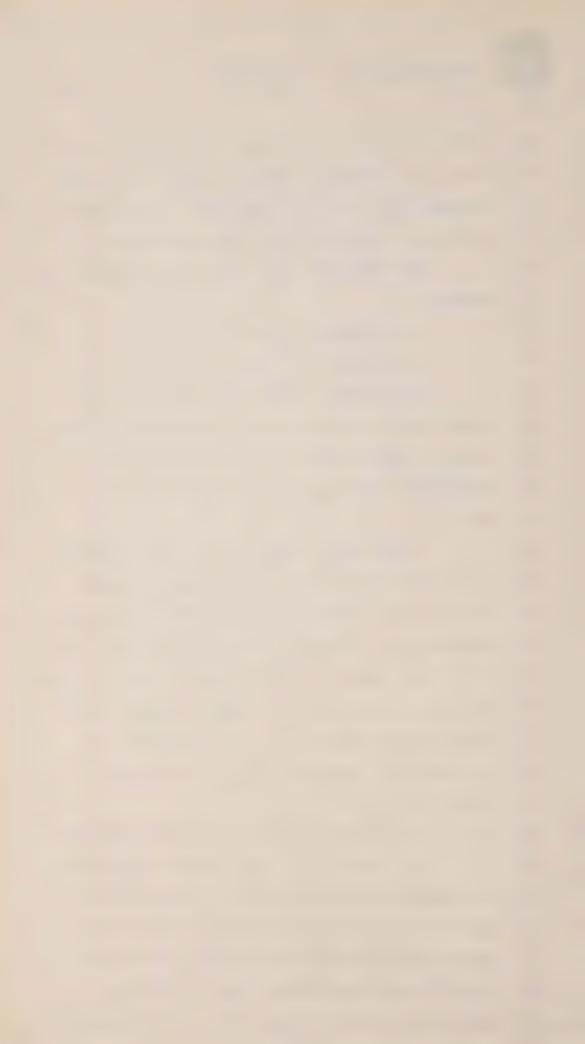
"Competitive Mileage Block". It is suggested to me

that there is a meaning to be given to that word

"competitive".

THE CHAIRMAN: That has a technical meaning?

MR. FRAWLEY: Q. Well, it has a meaning in
the Canadian freight rate structure. There might be
such a thing as a difference in actual miles between
Canadian National and Canadian Pacific, but what is
called the short line mileage, then, is used for
freight rate purposes. I think that is the thought in
your mind when you captioned column 1 "Competitive



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Mileage Blocks"?

A. I think that is correct.

MR. SINCLAIR: That is exactly why I objected. COMMISSIONER GOBEIL: Otherwise, the table does not make sense.

THE WITNESS: This was terminology taken directly from the tariffs.

MR. FRAWLEY: Does that clear it up, Commissioner Mann?

COMMISSIONER MANN: Yes. Thank you very much. MR. FRAWLEY: Q. Now, Dr. Little, continuing with your submission, on page 13.

(c) To illustrate the mechanics of determining the percent of increase in the existing rates through the application of the cost based rate increase formula, a hypothetical shipment may be used.

Under the assumption that the terminal costs increase by 10% and line haul costs increase by 5% which is the assumption I have made in Table 3.

> The application of the formula resulted in the determination of a scale of percentage rate increase for varying distances as indicated in Table IV. The steps for using the computed scale of percentage increases would be as follows:

(1) Determine the class 100 rate between the points of the proposed movement. Suppose, for example, it was \$2.71.

I would suggest at this point that we maybe keep our finger in Table 4 on page 31 and go through



this step. I repeat: Suppose, for example, it was

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\$2.71.

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(2) Look down column 2 of Table IV, (page 31) , until you find \$2.71 in the current class 100 rate column. It will be noted the percent increase to be applied to the contemplated shipment adjacent to \$2.71 in column 3 of Table IV is 6 percent.

THE CHAIRMAN: The formula is dependent on the assumption?

THE WITNESS: Yes.

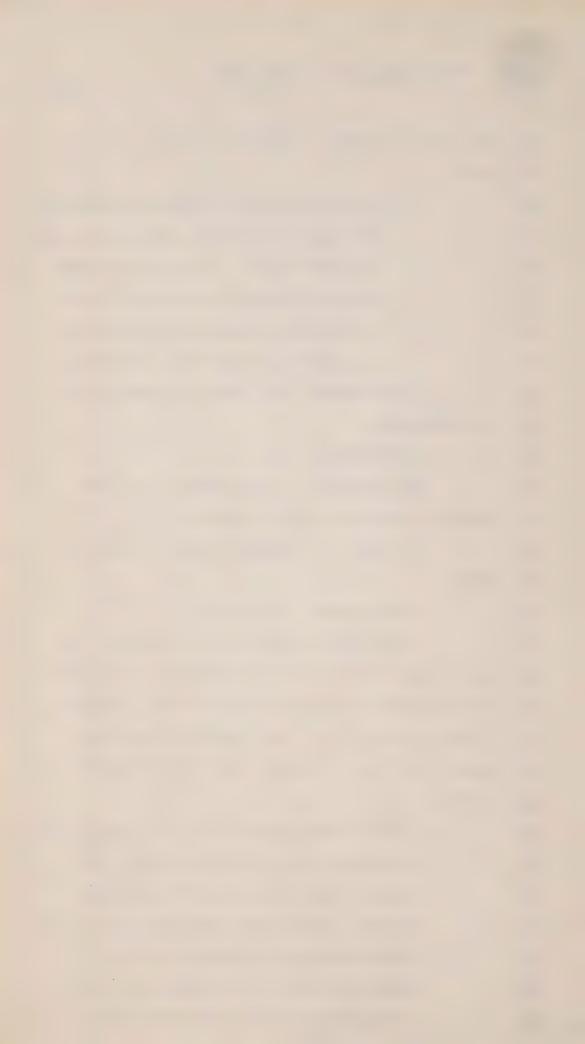
MR. FRAWLEY: Q. The working out of the formula is dependent upon the assumption?

A. Yes. I was wondering what assumption you meant?

THE CHAIRMAN: Five and ten.

THE WITNESS: That is correct, exactly. It will be noted that the percent increase to be applied to the contemplated shipment which is \$2.71 in column 3 table 4 is 6%. If you just run your finger down column 2 on table 4 until you come to \$2.71 beside it we see 6%.

Apply a 6 percent increase to the current rate (3) applicable to the class or commodity rate of the actual shipment as indicated in existing tariffs. Do not apply 6 percent to the class 100 rate unless, of course, the product is rated class 100. If the actual rate on the given shipment between the points of the





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movement happened to be \$2.50, for example, apply a 6 percent increase to \$2.50. This would provide a new rate of \$2.65.

the Dominion Bureau of Statistics, the
railways and from this Commission statistics
were sought which would indicate the percent
of increase in costs related and not related
to length of haul for rail freight movements
in Canada. Since these statistics were not
provided, it is necessary to assume
hypothetical increases in these two classes
of costs to illustrate the application of
the formula. Table III assumes a hypothetical
increase of 10 percent in costs not related
to length of haul and 5 percent for costs
related to length of haul.

I hope you will pardon the repetition of this so frequently.

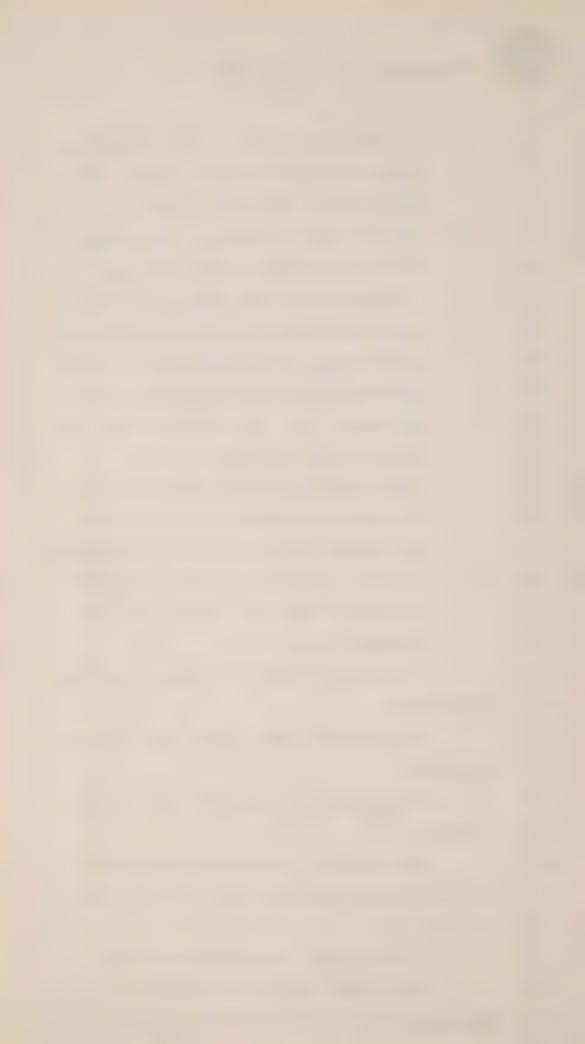
THE CHAIRMAN: This has never been presented to the ICC?

THE WITNESS: This has never been presented to the ICC.

MR. FRAWLEY: This has been the season on the horizontal percentage increase, and this is our buck shot.

THE CHAIRMAN: You are pioneering it?

MR. FRAWLEY: Yes, we will accept the honoured distinction that we are endeavouring to find



something, at least, that will serve in lieu.

THE CHAIRMAN: Well, you are to be commended for that.

MR. FRAWLEY: Q. From now on, the balance of your brief is devoted to what you call a CRITIQUE OF THE COST BASED RATE INCREASE FORMULA. It will speak for itself as it develops, but perhaps, for clarity's sake, I might say that from now on you enter into a critical discussion, under six or seven heads, of your formula.

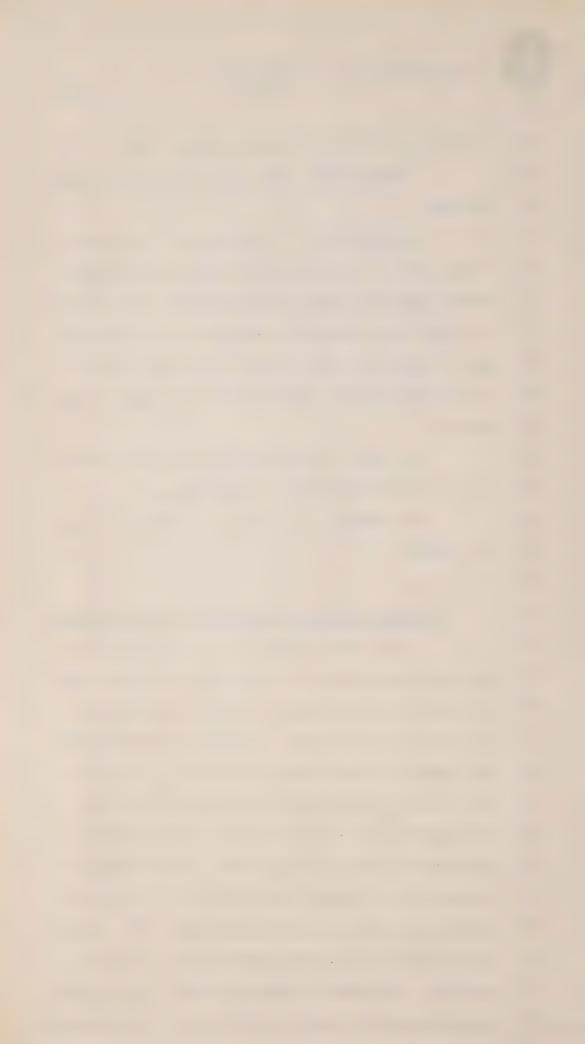
A. Yes, I have selected here certain areas that I think needed further clarification.

MR. FRAWLEY: Q. Will you continue, please, Dr. Little?

. A.

## CRITIQUE OF THE COST BASED RATE INCREASE FORMULA

A statement of some of the features of the cost based rate increase formula would be helpful for the purpose of clarifying its economic justification and practical application. It must be remembered that this formula for rail rate increases will be applied only on those rates formerly increased by the flat percentage increase method. There are two essential assumptions inherent in the formula. One assumption is that if rate increases are granted for the purpose of assessing shippers for increased costs, the change in the rates must accurately reflect the increase in the costs. The other assumption is that costs related and not related to length of haul do not always increase





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in step, and if they do not, a horizontal increase in rates for all shippers will result in an overcharge to either the long-or-short-distance shipper and an undercharge to the other. The assumed terminal costs and measured increases in costs related and not related to length of haul used in Table III are assumed for the purpose of illustration. They are not fundamental to the theory of the formula. The following statements and their elaboration are intended to further clarify certain aspects of the formula which merit further analysis.

MR. FRAWLEY: Before you start there, I am reminded of a statement made to me a few moments ago, Mr. Chairman, and I certainly want to apologize. My friend, Mr. Mauro, is not here but Mr. Stechishin is here, and I want to say that Mr. Stechishin and Mr. Mauro also proposed an alternative to horizontal percentage increase. I am sure that if my friend Mr. Mauro was here that I would not have escaped some comment. Perhaps my friend Mr. Stechishin noticed and was too modest to say anything. Certainly the province of Manitoba also suggested something, and I would not want to say I was the only one who was proposing it.

THE CHAIRMAN: Well, we will give you all the credit.

> The cost Computed Rate Increase Formula does not compute the percent of increase in costs related and not related to length of haul. And, it does not apply an arbitrary weighting





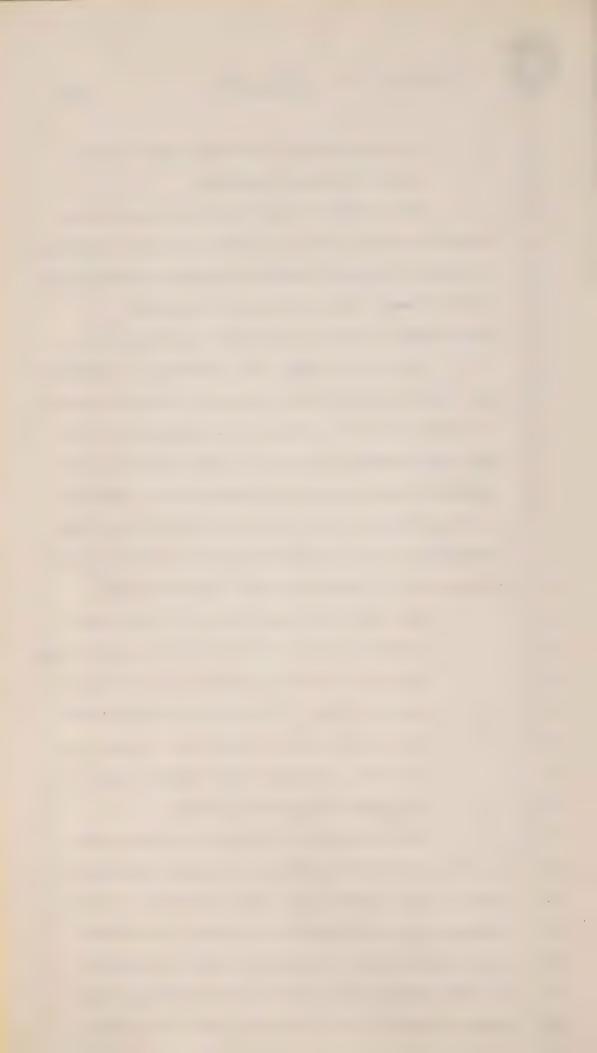
to determine the percent of each of these costs at varying distances.

All changes in costs related and not related to length of haul used in computing the overall increase or decrease in rates at varying distances are determined by the railways and/or the Board of Transport Commissioners and are not determined by the formula.

Given the current class 100 rate on a movement for a given number of miles, and given the fixed amount of terminal costs for movement of all distances of the same rating class, the amount of costs related and not related to length of haul are methematically computed — not arbitrarily set — for each mileage block. The proportion of each of these two forms of costs in each mileage block is measured and not arbitrarily set.

2. The use of the class 100 rate for the first mileage block of 1~20 miles as the predetermined costs not related to length of haul is purely an assumption. It is not known whether the rate in the first mileage block is equal to, less than, or greater than terminal costs for 100 pounds of class 100 freight.

The figure used to represent terminal costs for class 100 freight should be accurately determined since it will directly affect the percentages of rate increases for all distances of shipment. The change of the terminal cost figure which would be necessary for each change in the uniform scale of mileage class rates through the use of the cost based rate increase







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formula would not be difficult to compute. All applications by the railways for increased rates based on increased costs must be supported by a computation of percentage increases in costs related and not related to length of haul. The computed percent of increase in costs not related to length of haul will be multiplied times the measured terminal cost for 100 pounds of class 100 freight in the uniform scale of mileage class rates to be increased.

What I am saying here is when you have computed what the terminal cost figure is, this terminal cost figure must likewise be altered each time that you change the scale and it will be changed in accordance with the measured increased in costs not related to length of haul.

This will provide a correct new terminal cost for 100 pounds of class 100 freight to be used in computing the percent of rate increases for each mileage block.

3. There is good reason for believing that the existing class 100 rates have become incorrectly adjusted so as to provide a scale of rates unduly favourable to short-distance shippers and unduly high for long-distance shippers.

This is based upon the conviction that the flat percentage method of increasing rates has appreciably altered the relationship of rates to distance which formerly existed.



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It is assumed that the Uniform Scale of Mileage Class Rates which was made effective March 1, 1955, after much consideration and review for purposes of rate justice and equity by the Board of Transport Commissioners, did provide a scale of mileage rates which was fair and equitable. It is assumed that this corrected Uniform Scale of Mileage Class Rates made adjustments for the inequities which existed prior to its adoption. If Costs Related to Length of Haul did not increase exactly the same as Costs Unrelated to Length of Haul since that date, (and it would be a great coincidence if they did) it may be assumed that the flat percentage method of rate increases since that date has altered the relationship of rates to distance prescribed in the March 1, 1955, scale of rates.

Q. As you read it, you did not intend to leave out the words "and it would be a great coincidence if they did" which are in parenthesis?

A. I seem to be going rather rapidly. No, I did not intend to leave them out.

THE CHAIRMAN: You leave those in?

THE WITNESS: I leave those in.

MR. SINCLAIR: The arrangement was that he leaves everything in unless he says to take it out.

MR. FRAWLEY: All right, I was merely making that remark for your benefit.

MR. SINCLAIR: I am under the rule, I understand.

THE WITNESS: If Costs Related to Length of



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Haul have increased by a lesser percentage than Costs

Not Related to Length of Haul since March 1, 1955, the

flat percentage increases have resulted in unjustifiably
high rates to the long-distance shippers. Alternately,
short-distance shippers have benefitted by unjustifiably
low rates.

If terminal costs have increased more than line-haul costs since March 1, 1955, the short haul shipper has benefitted through the application of horizontal rate increases. At the same time a penalty from the maladjustment has been suffered by the long haul shipper.

I would like at this time to make it clear that this formula was not developed for the purpose of giving any form of relief to any shipper. It was developed for the sole purpose of correcting the horizon-tal percentage method of rate increase.

It will be observed from Table III that under the proposed formula the 3300-mile shipper would have his rates increased by 5 per cent, and the 20-mile shipper would have his rates increased 10 per cent. The majority of the difference of 5 per cent that is between the 10 and 5 would be applied on shipments under 250 miles in distance. According to these calculations, there is very little difference in the relationship between the per cent Costs Not Related to Length of Haul and total costs for shipments ranging from 250 miles to 3300 miles.

MR. TRAWLEY: Q. If you look at page 31,

I would like the Commissioners to see just what you mean.



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- A. Yes. You will notice, for instance, at 250 miles we have a 7 per cent increase and that is the breaking point. At 275 miles there is only a 6 per cent increase and there is only a 5 per cent increase when you go all the way up to 3300 miles -- there is practically no change.
  - Q. The 6 per cent runs from 275 miles to ---
  - A. To 1175.
- Q. 1175 miles, and the 5 per cent runs from 1200 miles right out to the end of the scale at 3300 miles?

## A. That is correct.

The adoption of 62 cents as being representative of terminal costs is primarily responsible for the fact that most of the reduction from 10 per cent to 5 per cent increase in rates as a measure of increases in costs occurs in the first 250 miles of haul. Had \$1.00 been accepted as the terminal cost share of the rate per 100 pounds for Class 100 freight, a 10 per cent increase would be applicable on freight moving 55 miles or less, for example, and freight moving 250 miles would be assessed an increase of 7 per cent instead of 6 per cent. However, the nature of the application of the Cost Based Rate Increase Formula would not be altered by the costs assumed to be representative of terminal costs for 100 pounds of Class 100 freight. The basic underlying assumption of the formula is only that the terminal cost figures used should be the true terminal costs for 100 pounds of



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Class 100 freight.

4. Horizontal rate increases do not reflect
accurately either increases in costs or
competitive circumstances. Changes in rates
based on changes in costs should be applied
through the Cost Based Rate increase Formula.
Competitive rates, and changes in classification,
rather than a flat percentage increase should
be used to meet competitive circumstances.

The Cost Based Rate increase Formula assures that rate changes will reflect cost changes. It does not assure that rate changes will reflect possible changes in competitive situations. It cannot prevent a situation in which rates cannot increase as much as costs have increased because competitive circumstances forbid it. But, the horizontal method of rate increase does not assure that rate increases will reflect cost increases or that rate changes will reflect competitive circumstances. Since the horizontal method is based on revenue needs, it does not reflect specific cost increases, and under some circumstances it may be less reflective of competitive situations than would be the Cost Based Rate Increase Formula. The reasons the horizontal rate increase method does not reflect competitive circumstances are:

a. The horizontal rate increase method is a rigid,
fixed system of changing rates, just as the
Cost Based Rate Increase Formula is. It



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could not be primarily based on overall revenue needs (as it is), applied on an overall flat basis, and also reflect competitive circumstances.

- Under circumstances in which accelerated innovations in terminal handling procedures offset the increase in costs more than do innovations in the line haul area, which was the reverse of what we found to be true between 1950 and 1958, rate changes which reflect cost changes should be relatively less for short haul than long haul. Under a flat percentage rate increase method, the extent which short haul rates should be relatively less than long haul rates would not be achieved. Under these circumstances, the horizontal rate increase method would be less reflective of competitive circumstances than would the Cost Based Rate Increase Formula -- assuming competition is greatest in the short haul. Of course, under other circumstances where terminal costs increased more rapidly than line haul costs, the flat percentage rate increase method would be more reflective than the Cost Based Rate Increase Formula of competitive circumstances ---
- Q. Now, just taking the last four lines I think it might clarify it to say "the flat percentage rate increase method would be more reflective of competitive circumstances than the Cost Based Rate Increase



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Formula though its rigidity would not permit it to directly reflect competitive circumstances.

- A. It does not change the meaning.
- Q. No, I am only talk ng about the language.

  I thought it might clarify it a bit.

A. Authorized rate increases applied through a general formula can hardly reflect with accuracy both increases in costs and competitive circumstances.

There are several reasons why changes in rates subject to authorized rate increases should reflect changes in costs rather than emphasize changes in competition:

- a. Most applications for increases in railway rates
  have been based on increases in costs.
- b. Adjustments in rates necessitated by carrier competition should be accomplished primarily through competitive rates or changes in classification.

I am saying here, if you find the situation in which for competitive reasons the cost based rate increase formula seems inapplicable then I suggest you change the classification or handle it as a competitive rate.

5. If changes in Costs Related and Unrelated to Length of Haul have been accurately measured, the resulting increases in rates applied to each mileage block will provide sufficient revenue to meet the increased costs -- given no change in the volume of traffic.



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The assumption of no change in volume of traffic responding to the increased rates under the Cost Based Rate Increase Formula is the same assumption adopted when horizontal rate increases are instituted to provide a comparable percentage increase in revenue --given no change in the volume of traffic. No rate increase procedure can be devised which will inevitably assure a percentage increase in gross revenue comparable to the increase in rates. It may be necessary to adjust upward the increase in rates above measured increases in costs for each mileage block under the application of the Cost Based Rate Increase Formula to assure sufficient revenue to compensate for changes in volumes of traffic. But the adjusted increase in rates for each mileage block can be made to reflect the measured percentage increase in Costs Related and Unrelated to Length of Haul for each mileage block. The use of the Cost Based Rate Increase Formula in this manner achieves the objective of retaining the competitive relationship of rates to cost by increasing rates in accordance with increased costs for each mileage block of the Uniform Scale of Mileage Class Rates. What I am saying is, if it seems to apply a measured increase in cost for this formula and you arrive at the given percentages of increased cost for each of the mileage blocks and it is believed that the net effect will be to reduce the volume of traffic just as horizontal increases have decreased likewise the volume of traffic, then, just as in the horizontal method of



...

increasing you approximate the percent of increase which you will need to add on to the flat percentage. Here, too, you will simply add on to the percentage figures in their relative proportion percentages to give you reason to believe that you will have sufficient revenue.

For example, if measured increases in costs
Related and Unrelated to Length of Haul were 5 per cent
and 10 per cent, respectively, but it was believed
volume of traffic might be reduced by this increase, the
revenue requirements of the railways could be met by
increasing the measured costs related to length of haul
by 6 per cent and the measured costs unrelated to
length of haul by 12 per cent. This would permit a
possibility for sufficient revenue to meet needs despite
a decrease in volume of traffic.

THE CHAIRMAN: It would be flexible?

THE WITNESS: Yes, it would be flexible.

COMMISSIONER ANXCOMB: It might also drive

more traffic away.

THE WITNESS: That is correct.

6. The application of the percentage rate increase for Class 100 Rates to all rates subject to authorized rate increases under the Cost Based Rate Increase Formula is economically correct.

This procedure merely assumes that the per cent of terminal costs to line-haul costs for each mileage block is the same whether the shipment is classified as Class 100 or any other class of freight. Since



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Class 100 rates can be obtained between all points in Canada, the use of the Class 100 Rate as a basis for measuring what the per cent of terminal and line-haul costs are of the Class 100 Rate for each mileage block is proper and expedient.

7. If the Cost Based Rate Increase Formula resulted in raising short-distance rates above what the traffic would bear would these new rates not be theoretically correct but practically unworkable?

The Cost Based Rate Increase Formula is applicable only to rates which normally would be subject to horizontal percentage increases. It is not normally applicable to competitive rates.

THE CHAIRMAN: I think we will have a recess now.

----Short recess.

THE CHAIRMAN: Order, please.

MR. FRAWLEY: Q. Dr. Little, will you give us your conclusions?

A. Yes.

Increases in railway costs necessitate increases in railway rates. The railways of Canada, operating under a competitive price economy, must receive sufficient revenues to cover their full costs of operation. If increases in railway costs are not accompanied by increases in rates through a cost ! allocation procedure which accurately reflects the



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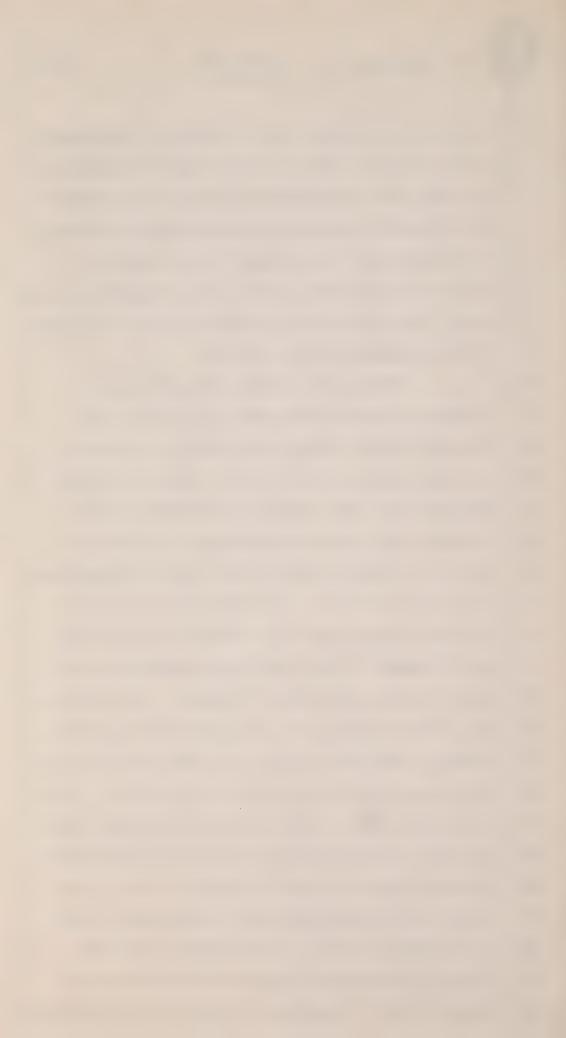
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incidence of increased costs, a subsidy to one element of the shipping public by another element is unavoidable. For many years the Canadian and United States railways have committed themselves to the procedure of applying horizontal, flat rate increases for all authorized general rate increases. From a cost responsibility viewpoint, this could only be justified if costs for varying shipping distances went up "in step".

Railway costs studies conducted by the Interstate Commerce Commission of the United States indicate that all railway costs have not increased by the same percentage year by year. Between the years 1950 and 1958, Costs Related to the Length of Haul increased less than half as rapidly as did Costs Not Related to Length of Haul for both fully distributed and out-of-pocket costs. The application of flat rate increases during those years resulted in unduly large rate increases for the long-distance shippers to the benefit of the short-distance shippers. The continuation of this practice over many years would have the effect of appreciably altering the relationship of rates to distance which had previously been in effect. The accumulated effect of this allocation of railway costs would have profound repercussions on the national transportation system to which it applied. There is much reason for believing that, over the long run, railway Costs Related to Length of Haul have not increased as much, percentagewise, as have Costs Unrelated to Length of Haul. Innovations in the form of dieselization



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and other "line-area" cost reducing procedures have very materially offset inflationary cost increases.

I might emphasize that if you were to determine the increase in the cost of a pound of steel or an hour of labour in the line-haul in the terminal areas that you might well find the increase is the same in both areas. This is a possibility. But yet, at the same time, the total change in terminal cost and line-haul cost may be very different because of the institution of innovations in the line-haul area which would offset much of the increase in the factor cost in the line-haul area, and would not be able to comparably offset the increase in the costs in the terminal area.

If the inflationary increase in railway rates

were equal to the increase in prices which shippers received for the product of their shipment, real transportation costs would not have increased. But, if the increase in railway rates, which resulted in no increase in real rail transport costs did result in assessing some shippers more than their proper share of the increased rail costs, while other shippers were assessed less than their proper share of the increased costs, the accumulated effect of many increases in rail rates would be to very appreciably alter the competitive relationships between the long-distance and the short-distance shippers. The cumulative illeffects on long-distance shippers and in favour of short-distance shippers could result in considerable long-run damage to the Canadian national production and



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distribution systems through the application of horizontal rate increases. Flat rate increases must alter the relationship of shippers of varying distances if line-haul and terminal costs do not move up "in step". It is extremely important that the procedure for adjusting railway rates upward be sufficiently flexible and accurate to assure that they reflect actual changes in costs of movement. The flat percentage method of rate increases represents an extreme example of a very inflexible method of rate adjustment.

The economic prosperity of the railway industry is unalterably linked with its own success in providing cheap long-distance transportation. It is to the long-run benefit of the railway industry that the Cost Based Rate Increase Formula, or something akin to its procedure and objectives, be instituted to replace the outmoded flat increase method of adjusting rates upward. It would be a great mistake to continue to apply flat percentage rate increases without being aware of the full implications of its capacity to change the existing competitive relationships of shippers of varying distances. The trend in railway rate making is more and more in the direction of setting rates to reflect costs -- as contrasted to setting rates in accordance with what the traffic will bear. If this is the direction of sound rate making, the Cost Based Rate Ircrease Formula will provide a considerably more accurate method of adjusting rates to the precise incidence of changes in costs.



It may be concluded by way of summary that:

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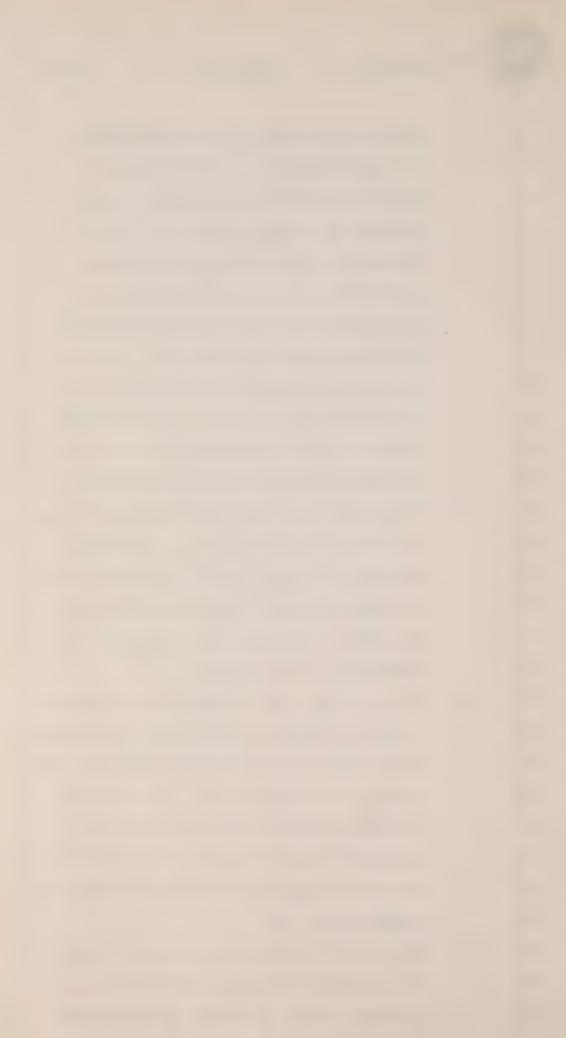
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- 1. The most precise way in which to assure that the competitive relationship between shippers of varying distances will not be
  - improperly altered through rate increases is to divide railway costs into the two categories of Costs Related and Not Related to Length of Haul, then make rate increases

for varying distances reflect increases in

- these two forms of costs for those distances.
- 2. There is little doubt that Costs Related and Not Related to Length of Haul have not increased by equal percentages in the past, nor will they be likely to do so in the future; therefore, the application of horizontal rate increases inevitably result in unduly great increases in rates for some shippers, to the advantage of other shippers.
- 3. The Cost Based Rate Increase Formula provides a means of applying the per cent of increase in Costs Related to Length of Haul and those Costs Unrelated to Length of Haul to the existing rates for varying mileage blocks so as to determine a cost increase corrected new rate for each mileage block in the Uniform Scale of Mileage Class Rates.
- 4. The Formula is intended to show how to apply the predetermined Costs Related and Not Related to Length of Haul so as to establish



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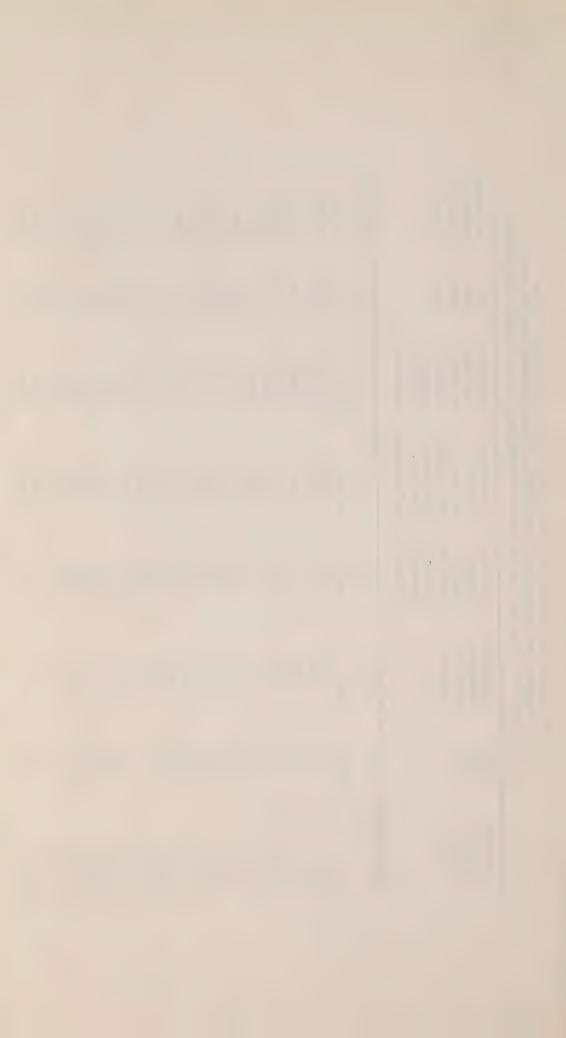
a new cost corrected Class 100 Rate for each mileage block; it does not suggest the procedure for determining these two classes of costs.

One of the primary reasons horizontal rate increases have been applied to date is that they do not necessitate the issuance of new tariffs with each authorized general increase in rates. By determining the per cent of cost increase for the Class 100 Rates in each mileage block of the Uniform Scale of Mileage Class Rates, and then applying the per cent of rate increase of the Class 100 Rate of each mileage block to all classes of shipments in that mileage block, it is possible to apply the Cost Based Rate Increase Formula without the need of changing the tariffs. The per cent of increase in Class 100 Rates for each mileage block of the Uniform Mileage Scale of Class Rates can be provided on a single sheet of paper.

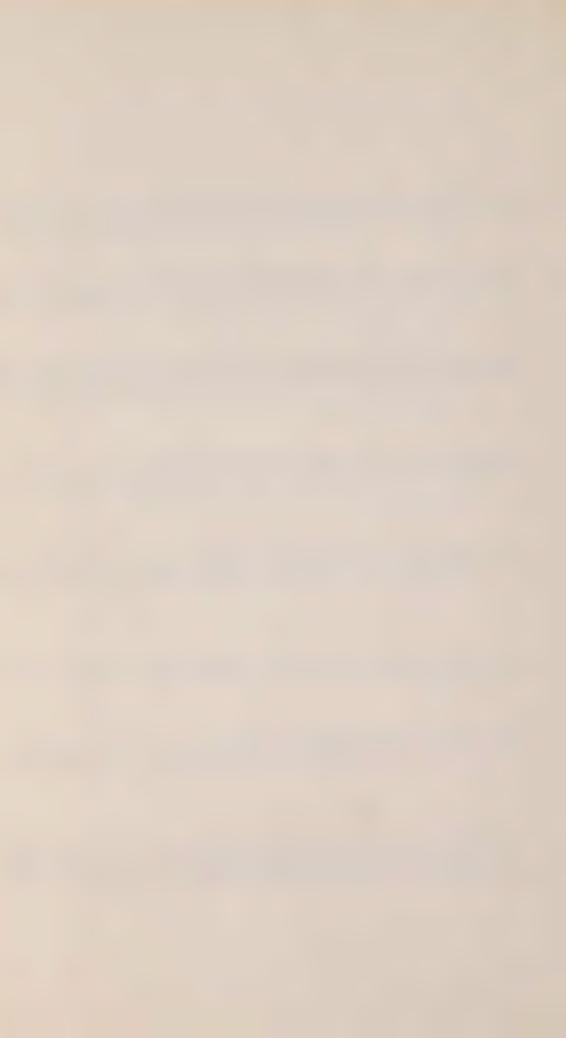
MR. FRAWLEY: Thank you very much. Will you now answer to Mr. Cumming?

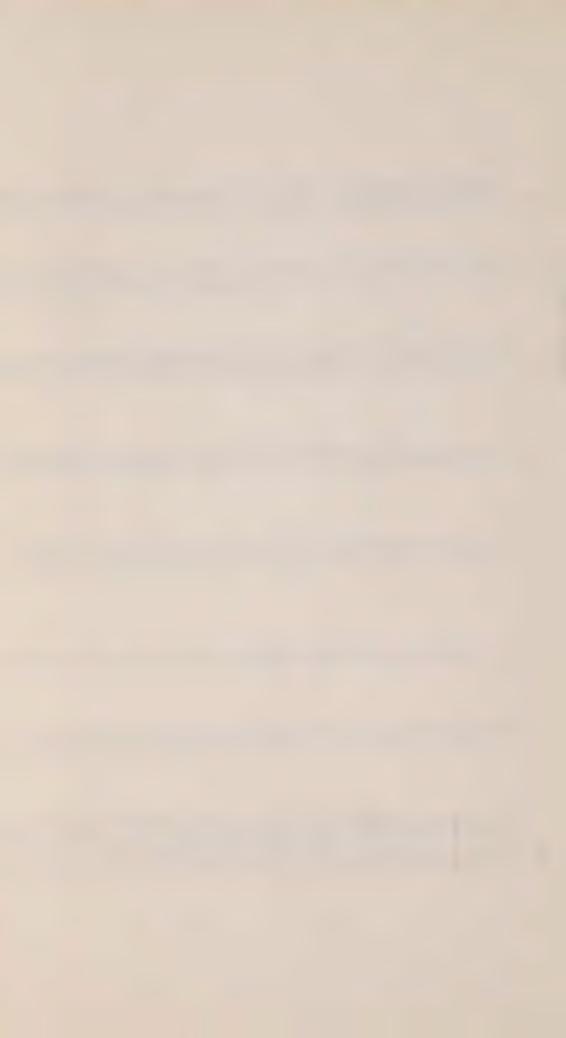


is ge Block	Per Cent of Increase on Class 100 Rates	(8)	•	00.00	9.03	7.17	0.76	8.60	71.8	2.0	7 0 2	7000	1.00,	1,04	7 27	7 12	77 9 9	, v , v	6.60	6 60	, v	70.0			6, 25
minal Costs Class 100 Rates at Each Mileage Block	New Class 100 Rates	(7)		¢ 73	) [X	, oo	) e	66	1.06	1.11	1 10	1.25	1 31	1 30	1 44	1 56	2 69	000	1 96	2, 07	2 18	2, 2		2.53	2.65
ease in Terminal Costs es Current Class 100 Rates te Change at Each Mileage	Amount of Increase in Costs Related to Length of Haul at 5% Increase	(9)	000	0025	0900	. 0085	. 0120	. 0145	. 0180	. 0205	.0240	0.20	0300	. 0333	. 0360	. 0420	0.0480	.0545	0610	0990	. 0715	0770	. 0825	. 0880	. 0935
Procedure Used In Applying a Ten Per Cent Increase in Terminal Costs and a Five Per Cent Increase in Line-Haul Costs Times Current Class 100 R to Determine a New Class 100 Rate and the Percentage Rate Change at Each Mil	Amount of Increase in Costs Not Related To Length of Haul at 10% Increase	(5)	\$0.062	. 062	. 062	.062	.062	. 062	.062	. 062	.062	. 062	. 062	. 062	.062	. 062	. 062	. 062	. 062	. 062	. 062	. 062	. 062	. 062	790.
	Amount of Costs Related to Length of Haul in Class 100 Rates	(4)	\$0.00	.05	.12	.17	. 24	. 29	. 36	. 41	. 48	. 54		.67	. 72	. 84	. 96	1,09	1.22	1, 32	1,43	1, 54	1,65	1, 76	1.87
rocedure Used I Five Per Cent L ine a New Class	Amount of Costs Not Related to Length of Haul	(3)	\$0.62	. 62	. 62	. 62	. 62	. 62	. 62	. 62	- 62	. 62	. 62	. 62	. 62	. 62	. 62	. 62	79.	. 62	. 62	: 62	. 62	. 62	. 62
and a l	Class 100 Rate	(2)	\$0.62	. 67	. 74	62.	. 86	. 91	86.	1. 03	1. 10	1.16	1.22	I. 29	I. 34	1.46	1,58	1. 71	I. 004	1.94	2,05	2.16	2.27	2.38	2.49
	Competing Miles (also Basing Point)	(1)	1-20	21-25	26-30	51-35	36-40	41 - 45	00-07	51-55	26-60	02-19	71-80	06-18	91-10	101 -125	057-971	6/1-101	007-071	227-107	229-720	251-275	276-300	301-325	326-350



	(8)	6.19	6,14																									-								5.49	5.48	5.47
ontinued)	(2)	-	00	2.99	3,11	3.22	3,34	3,45	3.57	3.69	3.80	3.92	4.03	4, 15	4,26	4.38	4.49	4.61	4,72	4.004	4.96	5.07	5,19	5,30	5.42	5,53	5° 65	5,76	5° 88	00°9	6,12	6.23	6,35	6,46	6.57	69.9	6.80	6.92
(Table III continued)	(9)	0660.	.1045	.1100	.1155	.1210	.1265	.1320	.1375	.1430	.1485	.1540	.1595	.1650	.1705	.1760	. 1815	.1870	.1925	0861°	. 2035	.2090	214	. 2200	2	.2310	N	242	. 2475	. 2530	. 2585	264	S	275	80	$\sim$	. 2915	. 2970
	(5)	. 062	. 062	. 062	. 062	. 062	.062	. 062	. 062	. 062	. 062	.062.	. 062	. 062	. 062	. 062	90	90	06		. 062	90	90	90	. 062	. 062	. 062	. 062	. 062	.062	.062	. 062	.062	9	9	9	.062	9
	(4)	1,98	2.09	2.20	2,31	2, 42	2,53	2.64	2.75	2.86	2.97	3.08	3,19	3, 30	3,41	3, 52	3,63	3.74	3.85	96	4.07	4,18	4.29	4.40	4,51	4.62	4.73	4.84	4.95	5.06	5.17	5.28	5.39	5, 50	5,61	-	5,03	0
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١	(2)	2.60	2.71	2.32	2.93	3.04	3,15	3, 26	3, 37	3,48	3, 59	3, 70	3.81	3,92	4.03	4.14	4,25	4,36	4.47	4.50	4.69	4.80	4.91	5,02	5.13	5.24	5.35	5.46	5, 57	5,63	5.79	5.90	6.01	6.12	6.23			ru.
	(1)	351-375		401-425	426-450	451-475	7	501-525	526-550	551-575	576-600	601-625	626-650	651-675	676-700	701-725	726-750	751-775	776-800	801-825	025-850	851-875	876-900	901-925	926-950	951-975	976-1000	1001-1025	1026-1050	1051-1075	1076-1100	1101-1125	1126-1150	1151-1175	1176-1200	1201-1225	1226-1250	1251-1275





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(Table III continued)

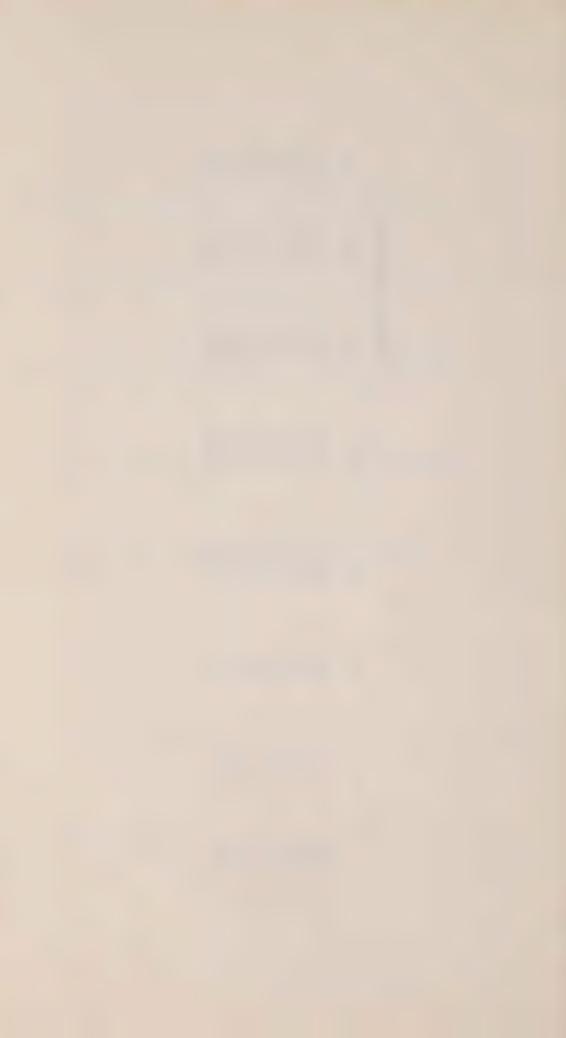


TABLE IV

Statement of Per Cent Increase to be Applied to Current Class 100 Rate According
To The Cost Computed Rate Increase Formula For Consecutive Mileage Blocks.
Each Mileage Block Encompasses All Mileage From the Previous Mileage Block

Competitive Mileage Blocks	Current Class 100 Rate	Per Cent Increase to be Applied	Competitive Mileage Blocks	Current Class 100 Rate	Per Cent Increase to be Applied
20	0.72	100			
20	0.62	10%	875	\$4.80	6%
25	. 67	10	900	4. 91	6
30	. 74	9	925	5.02	6
35	. 79	9	950	5.13	6
40	. 86	9	975	5.24	6
45	. 91	8	1000	5.35	6
50	. 98	. 8	1025	5.46	6
55	1.03	8	1050	5.57	6
60	1.10	8	1075	5.68	6
70	1.16	8	1100	5. 79	6
80	1.22	8	1125	5.90	6
90	1.29	7	1150	6.01	6
100	1. 34	7	1175	6.12	6
125	1.46	7	1200	6.23	5
150	1.58	7	1225	6.34	5
175	1. 71	7	1250	6.45	5
200	1.84	7	1275	6.56	5
225	1.94	7	1300	6.67	5
250	2.05	7	1325.	6.78	5
275	2.16	6	1350	6.89	5
300	2.27	6 .	1375	7.00	5
325	2.38	6	1400	7.11	5
350	2.49	6	1425	7.22	5
375	2.60	6	1450	7. 33	5
400	2.71	6	1475	7.44	5
425	2.82	6	1500	7.55	5
450	2.93	6	1550	7.77	5
475	3.04	6	1600	7.99	5
500	3.15	6	1650	8.21	5
525	3. 26	6	1700	8.43	5
550	3. 37	6	1750	8.65	5
575	3.48	6	1800	8.87	5
600	3. 59	6	1850	9.09	5
625	3.70	6	1900	9.31	5
650	3.81	6	1950	9.53	5
675	3.92	6	2000	9.75	5
700	4.03	6	2050	9.94	5
725	4.14	6	2100	10.13	5
750	4. 25	6	2150	10.33	5
775	4. 36	6	2290	10.53	5
800	4.47	6	2250	10.73	5
825	4,58	6	2.300	10, 91	5
850	4.69	6	2.350	11, 11	5



Competitive Mileage	Current Class 100	Per Cent Increase to
Blocks	Rate	be Applied
	210000	be rippired
2400	\$11.31	5%
2450	<b>İ1.</b> 51	5
2500	11.69	5
2550	11.89	5
2600	12.09	5
2650	12, 25	5
2700	12.43	5
2750	12.61	5
2800	12.77	.5
2850	12.95	5
2900	13.11	5
2950	13.29	5
3000	13.45	5
3050	13.63	5
3100	13.79	5
3150	13.97	5
3200	14.14	5
3250	14.31	5
3300	14.48	5



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## CROSS-EXAMINATION BY MR. CUMMING:

ANGUS, STONEHOUSE & CO. LTD.

- Dr. Little, as I understand the situation, Q. . as you have explained here, the whole basis is that rate increases should be applied so as to have those rate increases properly reflect the incidence of cost increases in the terminal and line haul areas?
  - A. That is right.
- Q. a That being the case, and the whole scheme being designed to ensure that rate increases reflect cost, what reason is there in principle for not saying that the rate structure in its entirety should reflect cost?
- There is an implication in your statement that the whole rate scale should be altered.
- Maybe it should or maybe it should not. What I want to understand from you is this: you say that rate increases should reflect cost: Why then, I ask you, should not the same principle apply throughout the rate structure and the whole of it reflect cost?
- I start with the assumption that the Board of Transport Commissioners upon giving reflection to all factors and circumstances, and knowing their country well and knowing its needs in the competitive situation of its rail carriers, have established a scale of rates which is equitable and proper and correct, and I do not want to offer a second judgment on this. I am directing my attention specifically only to changing this correct scale of rates so as it properly reflects changes in cost.





## ANGUS. STONEHOUSE & CO. LTD. Little, cr.ex. (Cumming)

Q. I appreciate that, and I appreciate that you are not critizing the uniform mileage scale as it was established in 1955, and that your proposal is based on the assumption that it is a proper one.

THE CHAIRMAN: You are taking it as you find it?

THE WITNESS: Exactly.

MR. CUMMING: Q. Is your assumption as to its propriety an assumption that it is a cost base scale?

- A. No.
- Q. Well, I ask you again, should it be?
- A. I am not here to make judgment on that.

  I think this is a policy decision to be determined by the Board of Transport Commissioners. They make this policy decision. My problem is directed only to one sphere and that is, how to handle the increases.
- Q. How to handle the increases, and your solution is that increases could be on a cost basis?
  - A. That is correct.
- Q. And would you take that position whether or not there are any, or any proper cost considerations in the uniform mileage scale as it was established in 1955?
- A. I would not want to pass judgment on that.

  I think you would get into many areas of thought on
  this, which is beyond the scope of this objective.
- Q. I am not asking you to pass judgment on it. I am trying to put these things on various



hypotheses. Assuming that the 1955 scale has no regard at all to cost -- just assume that -- would you leave that stand and direct your concern solely to increases?

A. I would. When the rail carriers come before the Board of Transport Commissioners and say, "Our costs have increased and we need more money", I think the Board is justified in saying, "Your costs have increased", and they do say, "How much have your costs increased?", and we are saying essentially the same thing.

Q. So it follows to the extent there are inequities or improprieties or any other sort of evil embodied in the uniform scale as it was established in 1955, this scheme does nothing to eradicate them but, on the contrary, perpetuates them.

A. Yes. The term "scheme" worries me a little bit. It has connotations and overtones that I am plotting for the purpose of devious means...

Q. Oh, this is a habit of mine and perhaps
I should adopt Mr. Sinclair's rather kinder word -this "plan". When I say "scheme" I am not suggesting
anything sinister. This "proposal" of yours, then.

A. Thank you. Would you repeat the question?

Q. To the extent there are any inequities or improprieties or other evils in the 1955 scale, this proposal or plan perpetuates them?

A. It does not alter the scale beyond the changes in costs.

Q. Suppose that the reasons for a request



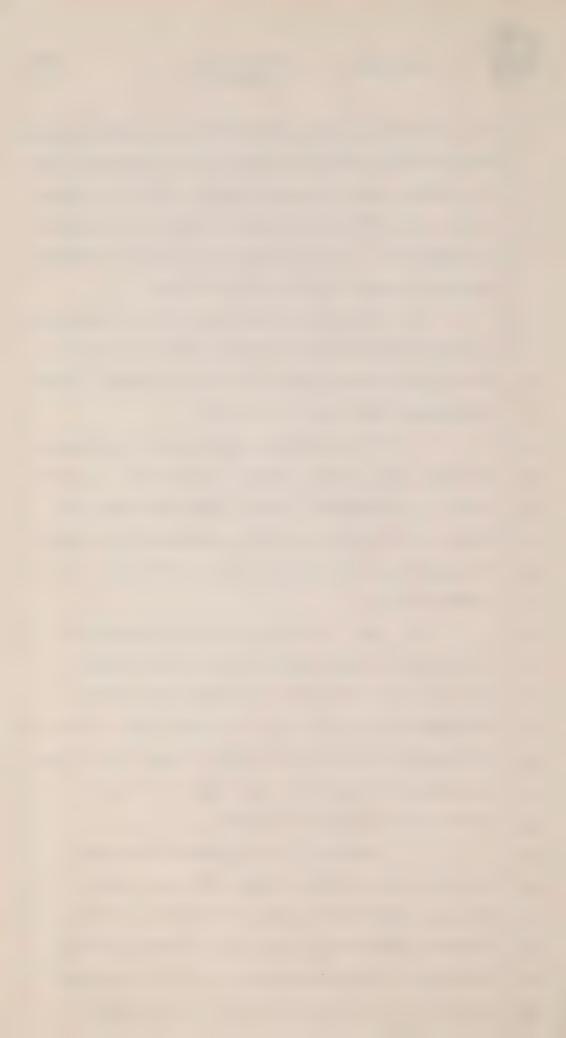
on an application made by the railways for rate increases was not founded solely on a question of rising costs but on a revenue need with which they were faced as a result of declining traffic -- possibly because of the inroads of competition: in such a case would the rate increase necessarily have to be on this cost basis?

A. Of course, we have given some consideration to the application of the formula which may result in insufficient revenue and we have given an answer to this circumstance which you have outlined.

You are suggesting something that is slightly different, and I am not bypassing your thought. You are saying, if the shipper appeared before the Board and suggested that they would wish to increase their rates -- and I assume you are asking about an increase in rates -- is that correct?

Q. They come to the Board and they say, "We are not making enough money and we need an increase in rates so we can make some more because our revenue requirements are not being met, and the reason for that is not because we have been faced with a change in our cost experience but because the trucks have stolen our business and our business is down"?

A. It may well be that many of the rates within the total scheme of rates, the total plan of rates, are such that they need reflection to see if individual rates should be put on a competitive basis, and under the circumstances which you have suggested, if you wish to change certain rates and make them



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competitive, then there is nothing in the application of the formula which will hinder this. If you wish to change the classification to reflect these types of things, then there is nothing in the application of the formula which will alter this.

Q. I think I appreciate that. I understand your formula is not designed to inhibit the ordinary rate making activity.

A. And if you have appeared and found you asked for an increase that was not sufficient, then again we say, seale up in accordance with the figure in order to arrive at sufficient revenue, because this could be another factor. I have taken the factors one by one and said, if it is a problem within the scale, then alter by changing classification, by making certain rates competitive, because there was an implication in one statement which you made that it was this competitive factor in certain areas. I would say, go to this area and make those rates competitive, and then you still have a scale which, in fact, does reflect competitive circumstances in which you can increase rates based upon increases in costs in the future. So, I have to say, are you asking me how to change whole scale, and, if you say, "how do you do that to make it competitive?", I would say, "go ahead and change your rates and make that competitive." If the reason for an increase in revenue is because you did not ask for enough, then I would say scale up in accordance with what I have suggested.

Q. That is the adjustment you would permit?



A. Yes.

ANGUS, STONEHOUSE & CO. LTD.

- Q. Beyond actual cost ?
- A. Yes, that is correct, beyond actual cost -- beyond measured costs.
  - Q. In order to meet revenue requirements?
  - A. That is correct.
- Q. If I can just come back to this rather narrower basis of my question, and I am not concerned about the railways! problem of any adjustments they may have to make or ought to make, competitive-wise, and so on, but I am concerned about this: your proposal is designed to permit rate increases to reflect measured cost increases?

A. Yes.

Q. And you say this is a proper thing because the basis of the railways' applications from time to time for rate increases has been their claim or their actual experience that their costs have increased, and because their costs have increased their revenue requirements are not being met, and it is for that reason they seek a general revenue increase. Supposing that their revenue requirements are not being met, not on the particular occasion of another increase because of a sudden rise in costs, such as a new labour agreement or new scale of prices for rails or something like that, but because of a general decline in their business, and all things taken into consideration it is decided they must have an increase in rates in order to reach their proper earnings level. Should that kind of increase be put into



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then?

effect on the basis of the plan which you outline? That is all I am asking.

A. As I understand it, there are just a few very limited number of things which could bring about the situation which you have depicted here. If because of the competitive nature the relationship of the rates of the rail carriers with those of other carriers it seems impossible, it seems improbable, to be able to increase their revenue, and it is believed that the rates are in inproper competitive relationship, that is one circumstance which could bring it about, and the way to do it is not to apply a flat percentage increase which, if compounded upon itself many times, will distort rates and end up with a series or a scale of rates which does not properly reflect costs. The way to do it is directly attack these specific areas in which, in fact, you have found your rates are not proper and correct -- not attack the whole scale of rates. I cannot answer your suggestion that you would meet the situation which you have outlined by applying a horizontal increase in rates.

Q. Is your position in the situation which I have outlined one which is purely hypothetical?

A. It is not at all hypothetical. I would not say that. I would say it is a very practical problem which you have presented, and I would handle it in a practical way by going directly to the cause.

THE CHAIRMAN: If there was a recession: what

THE WITNESS: If there is a recession, then you





## TORONTO. ONTARIO (Cumming)

have some very intersting problems in all businesses.

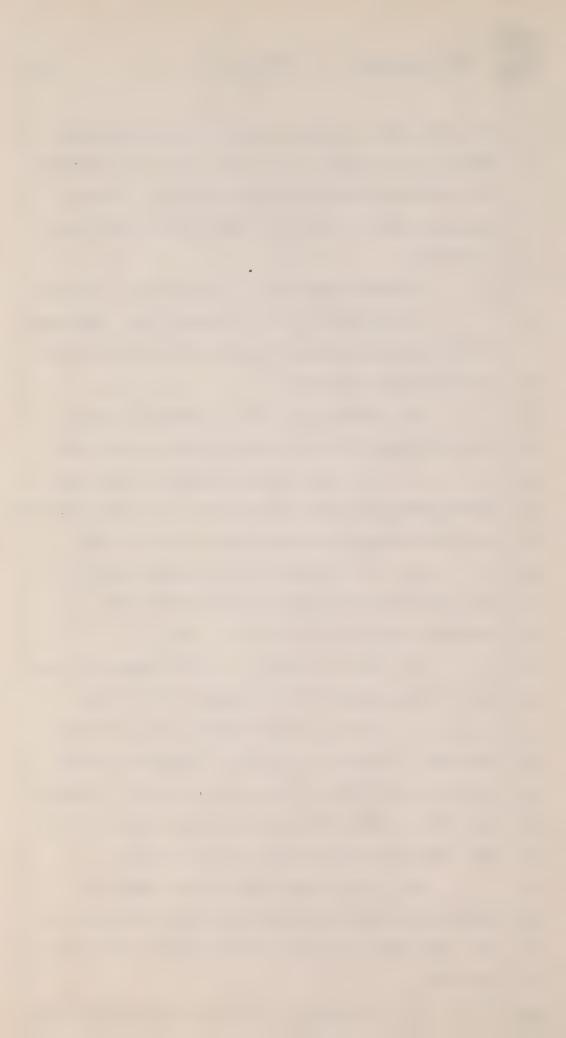
There is no—one going to solve the problem of a business in a recession, and you are going to suffer in this recession, and I cannot find a panacea for the railway situation.

COMMISSIONER GOBEIL: You mean for a recession?

THE WITNESS: For a recession, yes. There will
be many things applied and many will fail and have to be
corrected and recorrected.

MR. CUMMING: Q. This is directed solely to the inflationary time and experience and rising costs?

- A. It is not directed solely to this. This formula works both ways, up and down. If costs do decrease, the formula works just as well one way as the other.
- Q. So, if wage rates and material costs go down, then we simply apply the formula and these authorized schedules work their way down?
- A. That is correct. As costs change the rates change in accordance with the changes in the costs.
- Q. To follow that through, would it be selfadjusting or would it be subject to continuing review
  by, say, a regulatory tribunal who would keep a weathereye cocked on this situation to push the rates down if
  they find the costs are going down in that way?
- A. I have never found the rail carriers
  hesitant to appear before the Board suggesting they need
  more rates, and I am sure they would appear and point out
  this fact.
  - Q. You think the railways would be before the



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Board suggesting the maximum go down?

- A. I believe they would appear and point out the costs have changed or that they were in trouble one way or another. To have brought out all cost factors they will appear before the Board and suggest they have increased money in accordance with this recommendation.
- Q. On page 2 I want to get the direction in which your statement is going. You say at the top of the page, "It is not within the proper scope of this study to determine whether or not changed rail rates should reflect changed costs." Your study sets out a proposal whereby the costs can be reflected in changing rail rates?
  - A. That is correct.
- Q. And I take it from the way in which you have put it in that you think that is a desirable thing?
- A. I have tried to put myself as objectively into this problem as I could. I have said if the rail carriers appear before the Board because of increased costs and ask for an increase in rates, this is the way it should be done.
- Q. That is it. Please let me assure you I am not suggesting any lack of objectivity on your part, but you have developed this part, I take it, to recommend it:
  - A. I recommend it.
- Q. This is not an academic exercise. It is something you think can work and should be applied?
- A. That is correct. The reason I say this is, when, a little while ago you were talking about the original scale and should this original scale actually



reflect costs, my answer to you is that I am not in a position to say it should reflect costs. I think this is a matter for the Board to determine where they set the scale. There are many factors involved in the establishment of the original scale.

Q. And you did not set out to make an examination of that?

A. No.

Q. That was a fact of life you accepted when you embarked on this?

A. That is another study.

THE CHAIRMAN: You are not passing on cost of service and value of service?

THE WITNESS: No.

MR. CUMMING: Q. In the next paragraph on page 2 this statement appears, "It is rather a simple procedure to change rates in such a way that the resulting revenue is sufficient to cover fully distributed costs including capital costs." That statement, I take it, Dr. Little, is one based on an assumption that there will not be any impact on traffic volumes?

A. Well, I am saying that if there was a contemplated impact you would then again scale up and that they would, and have in the past, scale it up the percentage increase. If they say to the Board that their increases indicate they are \$10 million short, and their total revenue is \$100 million, it appears you need a 10% increase in the rate. It is rather a simple thing to compute.



Q. Yes, although I take it you would agree, and apparently the experience of the Ganadian roads in the last several years has been that computed increases have not yielded revenue sufficient to meet their requirements. This is what they say?

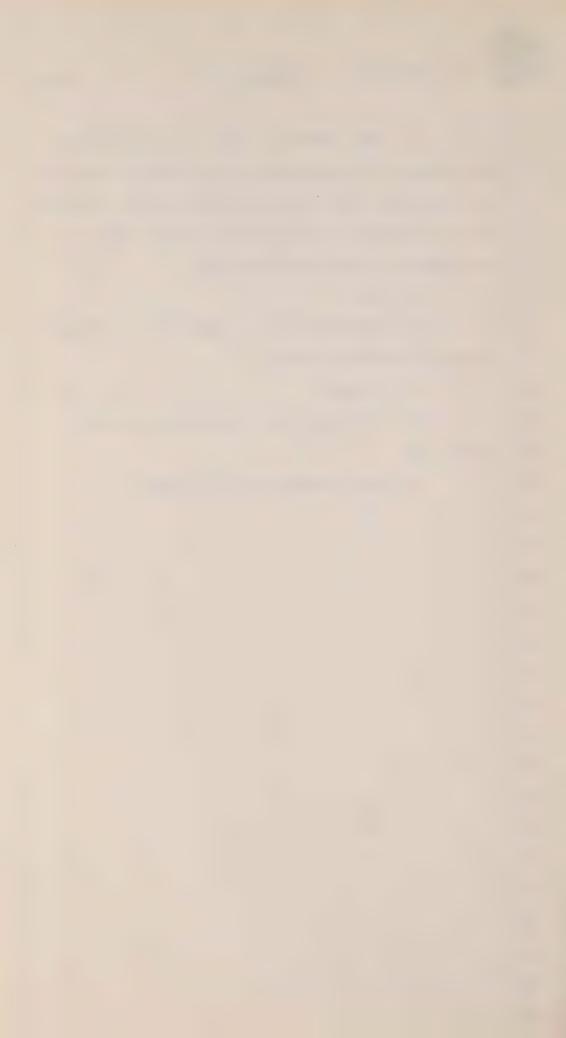
A. Yes.

Q. And keep saying, apparently. So, there is a practical traffic problem?

A. Exactly.

Q. As to how much transportation can the country buy?

A. Yes, I appreciate your point.



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Q. The tables that are set out on pages 3 and 4, Tables I and II, show interestingly enough some fairly significant variations in cost experience in the various regions of the United States that are there referred to.

I just draw your attention to a couple of these differences. Take the January, 1958, costs in the eastern district in the category "Costs Unrelated to Length of Haul" ---

- Are you in Table I?
- I am on page 3, which is Table I.
- Α. Yes.

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But perhaps it would be more germane, Q. since those are fully distributed, really to look at the ones on the next page, the out-of-pockets. The same sort of situation obtains. Looking at the cost unrelated to length of haul in the eastern district, in 1958, that is 13.6 cents per hundredweight, whereas in the southern district they are only 7.124 cents.

There are similar, although perhaps not as marked, variations in the line-haul costs as well? A. Yes.

COMMISSIONER BALCH: Were you reading from 3 or 4?

> MR. CUMMING: I was on page 4, Mr. Balch. COMMISSIONER BAICH: I thought so, yes. MR. CUMMING: Q. I was just drawing Dr.

Little's attention to the very marked variation, particularly in certain areas, in the cost experience in



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take regional or area costs?

the various areas.

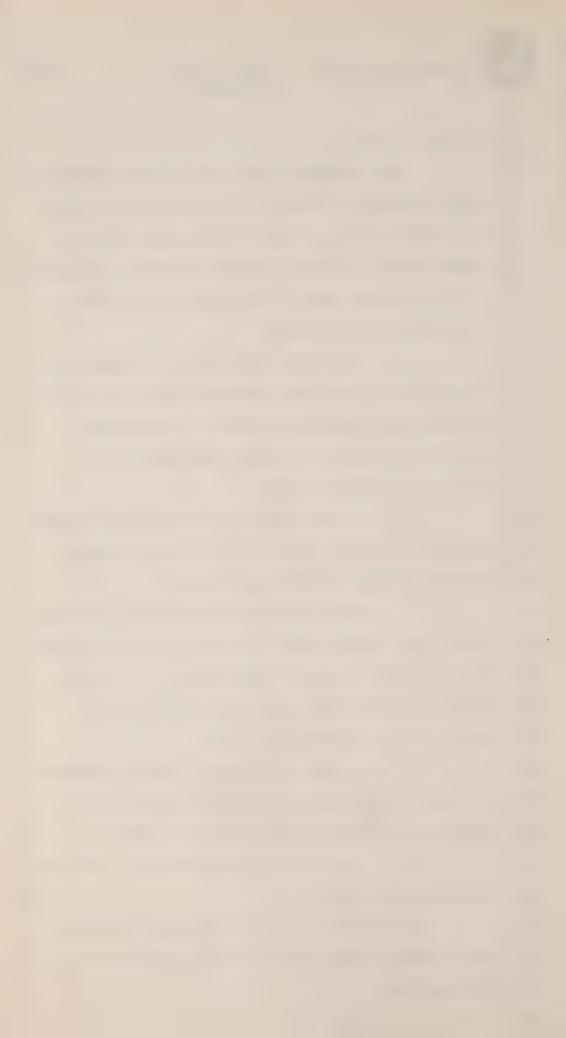
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A. Yes.

Now, having in mind those regional differences which apparently obtained in the United States, is it your suggestion, in applying the cost based rate increase formula in Canada that the cost would be analysed on a system-wide basis, or would it be more proper to

- A. Since the rail carriers in Canada, as I understand it, have been appearing before the Board on the horizontal method and asking for a nationwide percentage increase, I am suggesting here that a nationwide approach be made.
- Q. So, the costs which would apply and which would have to be determined would be system averages or national averages, rather than regional?
  - A. Yes, that is the procedure they have been using, and I presume that is the one they will continue to use. This is a very flexible system. You will notice it can be handled just about as you please.

    That is one of its greatest values.
  - Q. It would, of course, I take it, preserve the relationship between the various classes in the uniform scale of mileage rates; would it not?
  - A. I will not agree to that until I am sure exactly what you mean.
  - Q. Well, I have one here that I could show you in which classes are set out 100, 85, and so on down the line?



- Q. And as I understand the situation, when that was established in 1955 -- if that is a 1955 one -- it was done having regard to all sorts of traffic and value of service considerations and with a view to establishing proper relationships between the rates or between the commodities which move on those rates?
- A. It would have the same effect on Class 2 rates and Class 3 rates. The percentage increase would be the same.
- Q. And the relationship between them would be preserved, would it?
- A. Yes. You could have used as your base rate a Class 4,55 per cent and you would have had exactly the same percentage figures determined as you would have if you had used Class 100, exactly the same.
- Q. You mean if you double one you double the next, and the relationship between them is still the same percentagewise?
  - A. Yes, that is right.
- Q. Now, in your examination of this problem, and I do not know whether you have had an opportunity to do it, you have found that the experience has been line-haul costs have increased substantially less than terminal costs?
  - A. Yes, that is correct.
- Q. And that has been the experience over the past, certainly eight or ten years, as the figures you have in your table show?
  - A. Yes.



Q. Have you considered whether that is a trend that will inevitably continue in that direction, or do you think there is any possibility of a reversal of it, and the rate of increase in terminal costs will be lower than that in line-haul?

- A. It could be. But terminal costs in areas, periods of time in the future could increase less than line-haul costs.
- Q. And your formula would take that into account in its operation?
  - A. Exactly.
- Q. So that if line-haul costs increase at a higher rate than terminal costs, then under the application of this formula that cost experience would be reflected in any rate increase that would come about?
  - A. That is the intent of the formula.
- Q. And it applies, as I understand it, only to those rates, as you say later on in your brief, which have been taking percentage increases?
  - A. Yes.
- Q. And all other classes of rates, competitive rates, agreed charges, and so on, would not be affected by this?
  - A. The formula would not apply to them.
- Q. It would not apply to them, and they would be left to the normal rate making process?
  - A. Yes.
  - Q. Subject to negotiation, or whatever it



may be?

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costs?

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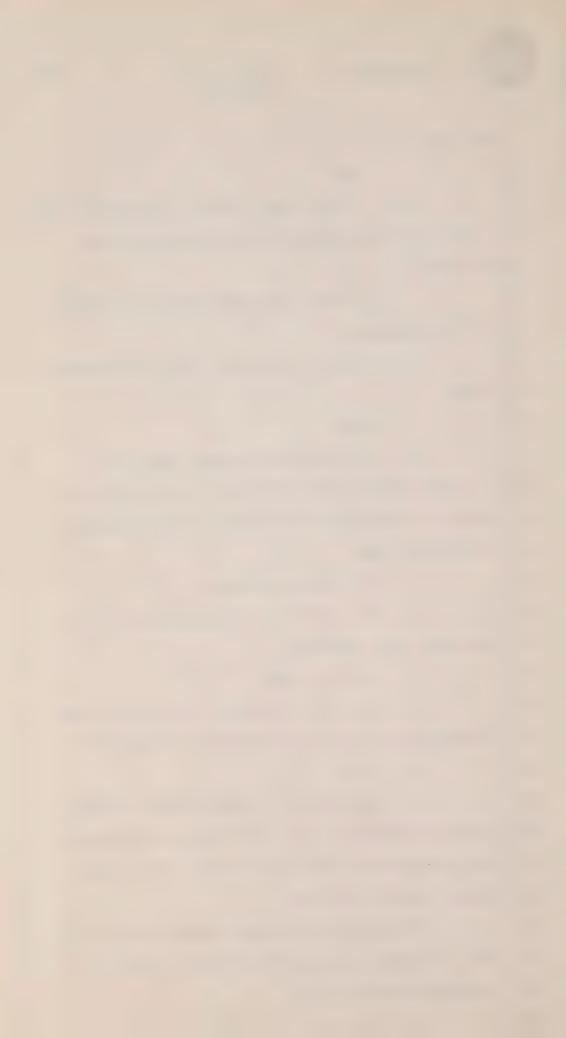
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A. Yes.

- It, of course, entails the greatest detail in the necessary cost study upon which it will be applied?
- A. It needs sufficient detail to determine the cost increase.
  - Q. Both as to terminal and as to line-haul
  - Α. Yes.
- Q. And those cost studies would not be confined to the increases in cost, but would have to extend to the whole cost experience of the railroad? Is that not right?
  - A. Yes, that is correct.
- Q. As, otherwise, no percentages could be determined, for one thing?
  - A. That is right.
- And it is essential that terminal costs Q. . be established with as much precision as possible?
  - A. Yes.
- Q. On page 10, in paragraph (e) you are discussing there Table III, and there is an assumption which you make that the Class 100 Rate for the first mileage block is 120 miles.

That really represents terminal costs, and that, of course, is originating terminal cost and terminating terminal cost?

A. Yes.



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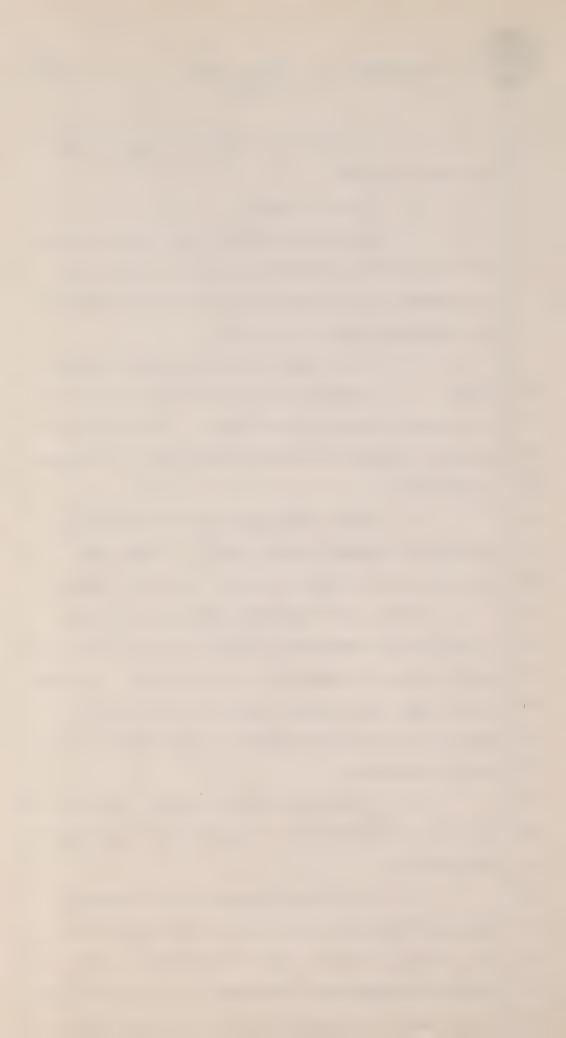
- Q. And that cost remains a constant figure throughout any rate?
  - That is correct.

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- Q. And it is in order to be fair as between the long haul shipper and the short haul shipper that you segregate that out and make the increases apply to that separately from the line haul?
- A. Yes. This is the reason that the taper exists. If terminal costs shifted, then you would be in a serious position on your taper. The taper exists because of the fact that terminal costs do not increase with distance.
- Q. Then, after your formula is applied and there is an increase the rate will go up while the percentage, this 62 per cent assumed figure, has risen.

Well, now, what is the situation, and what is the impact on short haul shippers if that is done, and that is the only terminal cost increase which a long haul shipper pays, even though en route from Toronto to Vancouver his goods move through a whole series of intermediate terminals?

- A. I wish you would -- I would like to ask you to simplify that question. I am not sure I understand the question.
- Q. Well, let us start from the beginning. Line-haul costs go up by x per cent; terminal costs go up by x-plus per cent. And it is because of that different increased cost experience in the two divisions of cost that you segregate them in this formula and apply



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the appropriate increases in either class?

A. Yes.

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- Q. And it is a foundation of your assumption that as you have worked it out, the terminal cost is that which is now represented by the rate for the first mileage block?
  - A. Yes.
- Q. And if you have a short haul shipper -somebody whose goods move, say, 50 miles, or some distance of that sort from A to B -- the terminal costs
  which are involved are covered in this 62-cent figure,
  and the terminal costs which are involved are the
  terminal costs at the point of origin and the point of
  destination?
  - A. Yes.
- Q. But a shipment moving from, say,

  Toronto to Vancouver, is going to move through a

  whole series of intermediate terminals?
  - A. Yes.
  - Q. That presumably would be the case?
  - A. Yes
- Q. So there will be the terminal handling costs and the originating costs; that is, the Toronto terminal costs and the Vancouver terminal costs, which are represented by the 62 cents, but what about the increased terminal costs which are involved in that movement as it goes through the yards at the lakehead, Winnipeg, Calgary and so on, on its way through to Vancouver?



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- A. Certain switching operations?
- Q. Anything there may be, yes.
- A. At this point, I must say that I do not in this formula tell you how to determine terminal costs. I do not tell you, for example, the answer to the question which you are specifying. And, frankly, I think this could be worked out by people who are extremely competent in this area, who would like to differentiate whether they would prefer to include the switching costs or not. It is not significant whether you do or you do not increase them, providing you are consistent, including those intermediate switching points as a part of the total terminal costs. If they were included as part of the total terminal costs, then what you are suggesting as a problem would evaporate.
- Q. If all those terminal costs are included in developing the system average of terminal costs, then is not the short haul shipper, whose movement does not involve shipping at the lakehead, Winnipeg, and so on, paying moreof the increased terminal costs than he ought properly to bear?
- A. Let us just take a hypothetical case,
  Mr. Cumming, on that. Let us suppose it was thought
  that a very small part, a certain portion of a given
  terminal was used in handling inter-carrier sperations
  -- switching operations, if you will. Or, if not
  inter-carrier, just a movement through a terminal
  point.



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If a certain percentage of this were on a line haul movement and not originating or terminating, then you would apply that per cent which you had determined times those terminal costs in determining what the total of the line-haul costs were. They would be added. This comes into the part of determination of what line-haul costs are.

The Interstate Commerce Commission, I am sure, went through this analysis you are now involving yourself in when they determined what the per cent of increase in line-haul costs and terminal costs are. If you notice, I do not take on the I.C.C. to determine whether or not their procedure is correct. That is not a part of this formula at all. I am sure that in due course of time the rail carriers and the Board of Transport Commissioners will work out the correct answer to this.

- Q. The problem that I raise, Dr. Little, I take it, in your view is really just a refinement that would have to be made; something that could be developed through proper cost studies?
  - A. Yes.
- Q. You do not see any difficulty in relieving the short haul shipper of what appeared to me to be an unnecessary, say, an unfair burden saddled on him with additional terminal costs?
- A. I certainly agree with you that those intermediate terminal costs that are involved in a long haul movement should be included in determining what the



increases in the costs are for a cost related and not related to the length of haul.

- Q. I do not know that you are agreeing with me. They would have to be taken into account, but would they be charged against the short haul shipper who does not incur them?
  - A. No, no.
- Q. They would be taken into account and then somehow or other segregated out?
- A. I feel reasonably sure that that is correct, that they would be taken into account; they would not be charged to a short haul shipper who had no intermediate ---
  - Q. Terminal considerations?
  - A. -- terminal operations, yes.
- Q. Incidentally, all this cost information, which will necessarily have to be developed in order to provide a foundation upon which this formula will operate -- will that, in your view, be published?
- A. I think that, in turn, is a matter for the Board of Transport Commissioners.
  - Q. This is perhaps outside your brief ---
- A. I would prefer not to comment on that.

  There are policy questions involved in that that are very extensive.
- Q. I just have a couple more points here, Dr. Little.

On page 20, in dealing with your critique
of the system and the comparisons with horizontal methods



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near the bottom of the page you say:

"The assumption of no change in volume of traffic responding to the increased rates under the Cost Based Rate Increase Formula is the same assumption adopted when horizontal rate increases are instituted . . ."

The railways, if I understand what they say, take the position that they do take into account the erosion of traffic, the loss of traffic which will result from the rate increase and then they seek a percentage increase which takes that anticipated loss of traffic into account?

- A. I believe I said that, Mr. Cumming.

  I believe I said this same thing which you have suggested.
- Q. That being the case -- I am sorry, perhaps I misconstrued what is contained in your brief -- but, that being the case, that being the basis upon which the railways formulate their applications for a percentage increase, would it not be said that the method of horizontal percentage increase does in fact take into account the competitive situation?
  - A. I fail to see how.
- Q. Well, I suggest that on this basis: the railways, when they want a revenue increase or rate increase -- excuse me.

I am informed that I have been using the wrong terminology -- erosion and attrition. I also used the words "loss of traffic". However, I am indebted to my friend for his assistance.





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Q. In preparing an application for general revenue increases the railways have regard to the revenue requirements and they have regard to the impact that increased rates will have on traffic and to the inevitable loss of traffic in certain sensitive areas for their increases in railray rates. Now, if that is what they do, as I understand to be the case, surely they are having regard to the competitive situation, they know what they are going to lose to their competitor. Is that not it?

A. You see, our interpretation of the word
"competitive" seems to be moving off in different areas.

I am thinking of the establishment of rates which reflect
the competitive circumstances rather than establishment
of rates which are competitive.

commissioner Goberl: Dr. Little, am I right in thinking that you make it very simple and that competitive rates are nothing to be touched by your proposal?

A. That is correct.

COMMISSIONER ANSCOMB: It answers itself.

MR. CUMMING: Q. Well, perhaps we are getting at cross purposes. However, may I just say this to you: Is it not the basis upon which a railway application for a general revenue increase is formed mainly that account is taken of the loss of traffic that will result. Does that not imply that the horizontal percentage increase method is having the most careful regard to the competitive situation, to competition generally?





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A. The change in the percentage figure which is determined under the horizontal method, to account for it you originally used the term "erosion", is a reaction to revenue needs and not competitive circumstances.

Q. Reaction to revenue needs and not competitive circumstances?

A. Yes, because the revenue increases when you apply the horizontal increases you then add a greater flat increase than you otherwise would have.

MR. FRAWLEY: Mr. Chairman, would I be helping or hurting the situation by saying something now? I am merely doing this to assist my friend, Mr. Cumming. I might say that when the railways go before the Board of Transport Commissioners seeking an increase in rates their application itself makes it plain that they are not seeking to apply this increase to competitive rates or agreed charges. To use a loose expression, that is their business. They put that on every time they can and I am giving them credit they put it on every time they can and also agreed charges is subject to the contractual limitations that are there. But, when they go before the Board they make it very plain they are seeking to have a percentage increase in the traffic other than the competitive rates and the agreed charges. I am only saying that to help clarify the situation Mr. Cumming has developed.

THE WITNESS: Mr. Cumming, I appreciate the point you are asking me about is pertinent to another



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point. You are suggesting that when you do determine a percentage increase and you do add a little bit more than would be really necessary in a comparison of revenue on total revenue that you do a little more on the basis of the fact the volume will rise. That is the question and he is saying does that not suggest you are in competitive circumstances?

THE CHAIRMAN: It is to normal traffic.

THE WITNESS: That is all.

clarify my own mind which does not need clarifying. Dr.

Little simply says when there is an increase requested
he has the formula of dividing the costs of one place
which he thinks are higher in another, dividing the two
applying the percentage increase. That is all he is
doing, not moving from any other point at all, past,
present or future.

MR. FRAWLEY: I think that is a fair summary.

MR. CUMMING: I think that sufficiently

clarifies it and I have no further questions.

THE CHAIRMAN: Mr. McDonald?

#### CROSS-EXAMINATION BY MR. McDONALD:

- Q. I just have a couple of points, Dr. Little.

  In the application of your formula for increases you would be applying a cost based increase to a scale of rates which is not based on costs.
- A. If they are not based on costs then I assume they are not based on costs, I do not comment on



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what they are based on?

Q. Now, you are familiar with the rate of taper which is built into the rate structure?

A. Yes.

Q. And the effect of that rate of taper is that as distance increases the revenue per ton mile decreases.

A. Yes.

Q. And is not the effect of what you are doing just a changing the rate of taper as far as these increases are concerned.

A. It is true that the taper will change if costs shift so as to bring about a change in the taper but the purpose is not to change the taper.

Q. Just dealing with your purpose and the rate of taper, in the first place it was without fixing this that the short haul shippers were paying more of a terminal charges than the long haul shippers?

A. I do not know what the intent of the original taper was.

Q. Is that not the effect, the revenue per ton-mile, say, on a haul of 200 miles is far greater than the revenue per ton mile on 2500 miles?

A. I have seen figures of that kind but I did not analyse Canadian figures to determine if that is correct.

Q. And when you apply your base here I notice it goes from a 10% percent increase to a 5% which is in effect another rate of taper. Is that not



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it, a rate of taper applied to your increase?

- A. You are applying costs which can alter taper. That is your point, is it not?
- Q. Well, the point here is what you in effect are doing is accelerating the rate of taper, accentuating the rate of taper.
- A. Only under circumstances that the costs fall that way; if the costs went the other way I would be doing the reverse.
- Q. Well, your assumption was that there was a greater increase on terminal costs and line haul costs?
  - Yes. A.
  - That was your assumption? Q.
  - Yes.
- Q. And you worked it out and have your increases from 10% to 5%.
  - A. Yes.
- Q. Which is in effect a rate of taper applied to your increase?
  - A. That is correct.
- Q. But when you apply those percentages to a rate into which the rate of taper is already built, do you not just accentuate that?
  - A. You change it in accordance with the ---MR. FRAWLEY: In accordance with the what? THE WITNESS: In accordance with the cost.
- MR. McDONALD: Q. And now, taking this, if you are going to apply your formula of these percentage increases tapered down from 10% to 5% to these rates,



in

A. Oh no.

Q. The rate of taper applies ---

should you not take the progressive rate without any taper in it to get the right picture.

- A. Would you restate your question?
- Q. By applying your formula for increases based on difference in cost should you not take a progressive rate without any taper in it and apply it?
- A. No, not if the Board is to increase rates in accordance with the increased costs.
- Q. What I am pointing out to you, the way it strikes me is that by applying your percentages to a rate in which the taper is built in you are accentuating that taper.
- A. You are making an assumption that the changes in the cost do not and should not in any way affect the taper. I am suggesting at the time, as of March 1st, 1955, assuming that is a correct taper which they have determined and all these considerations have been taken into consideration by the Board of Transport Commissioners, they establish the taper and a scale which they say is correct and equitable. However, times change and costs change and a taper time is correct 1955 is not a correct taper today and we are making the taper correct in accordance with the circumstances as of today, not 1955.
- Q. I am suggesting that that has already been done when, supposing you applied a flat 10% increase across the sheet?



	A	. I	beg you	ur par	don,	no, no	t if co	osts	do
not	shift.	You	see, i	f this	tape	r is c	orrect	and	it
refl	ects all	lof	those	circun	stance	es whi	ch the	Boar	d
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have	change	<b>d</b> and	relat	ionshi	ps of	costs	have o	hang	ed,
it w	ould be	very	incor	rect t	o reta	ain an	old ta	aper.	

- Q. You think that -- do you suggest the whole rate of taper should be changed?
- A. Circumstances suggest and in fact require that it be changed.
- Q. Well, following this one step further, suppose your formula were applied to a number of successive increases.
  - A. Yes.
- Q. Would it not distort the whole rate picture.
- A. I would suggest it would be distorted if it did not reflect them.
- Q. What would happen? You can see the picture, you are building this into a rate scale where there is a rate of taper?
  - A. Yes.
- Q. And as you apply your scale to it that rate of taper is accentuated?
- A. It is changed in accordance with the measured costs.
- Q. On the assumptions you have worked on and if you did that continuously then you may get to a point after about twelve successive increases where the short



haul	ship	per 1	was	payin	ng th	ne sar	ne r	ates	for	300	miles	as
the	long 1	haul	shi	pper	for	2500	mil	es.				

- A. I would not visualize that happening.
- Q. I will not go into that but I have a chart showing it here worked on your basis. I think that is reasonable because as you apply this it is ---
- A. What you are suggesting is that the terminal costs have increased so much more rapidly than the line haul costs during these many years, say 40 years in which a number of successive changes of rates have taken place, these terminal costs have increased so much it has now become more costly to take a short haul than it is to take a long haul. I am suggesting that would be very rare indeed.
  - Q. I did not suggest that, you suggested it.
- A. You still have your original costs of origin and destination.
- Q. I am not suggesting that your assumption is that the terminal costs have increased more than the line haul costs.
- A. I have not assumed anything nor my formula assumes absolutely nothing. It takes what are given facts and applies them.
- Q. Where did you get the facts to apply this to the Canadian freight rate structure that the terminal costs have increased more than the line haul?
- A. These figures which I have used are of the ICC which are entirely for illustrative purposes only because the facts were not present for the Canadian



Q. Getting back to the line haul costs and

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railways when requested.

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terminal costs, are these costs separated?

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A. Sufficiently so the ICC can work on its findings.

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COMMISSIONER GOBEIL: Mr. McDonald, on your notes, do I see some figures on tapering?

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MR. McDONALD: Yes.

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COMMISSIONER GOBEIL: Can you give me some? For instance, what will be the taper between 275 miles and 1200 miles?

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MR. McDONALD: I can give you a reference. I have the Judgment of the Board here in the case of March 15, 1955 and this has been referred to before and Schedule "B" to that order shows the rate of taper --one from 200 ---

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COMMISSIONER GOBEIL: That is all right, I will find it.

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> MR. McDONALD: The schedule is attached and you get it there.

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COMMISSIONER GOBEIL: Thank you.

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to apply your formula as you continually employ it you

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are going to distort the rates between the short haul and

MR. McDONALD: Q. Well, my point then is that

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long haul shipper so the short haul shipper is going to be charged more in the proportion than the long haul shipper.

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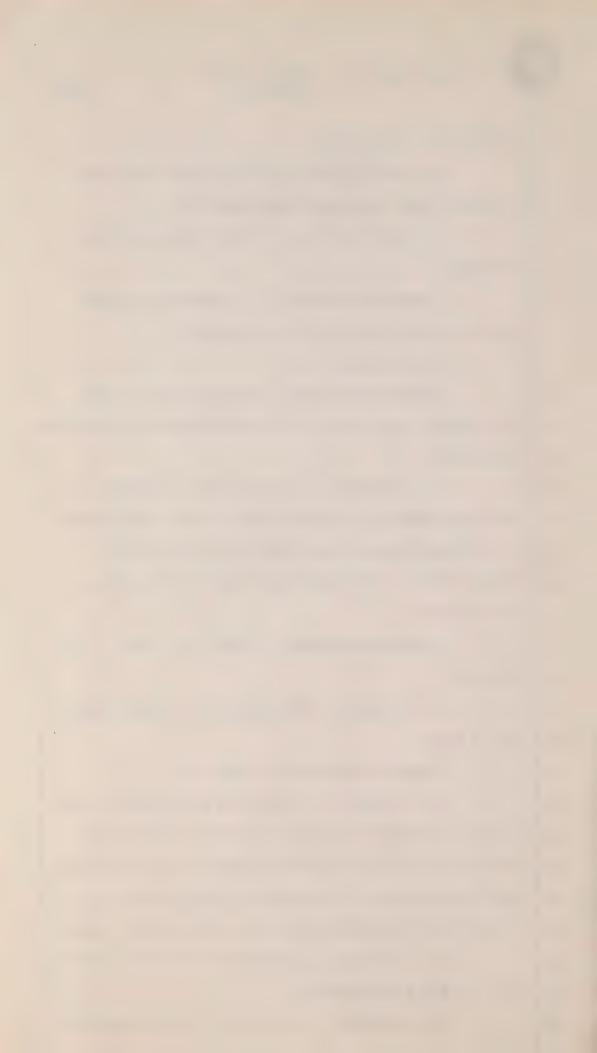
A. I am sorry, I am saying that if you did not

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do it it would be distorted.

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MR. McDONALD: I think that is all, thank you



very much.

#### CROSS-EXAMINATION BY MR. SINCLAIR:

Q. Dr. Little, it has been my privilege for a good number of years to take the position that the most equitable method of a general increase is the horizontal percentage increase method. I want to tell you that so that you would know where I stand and what my client's position is.

A. I anticipated that.

Q. So I may understand this and not get at cross-purposes with you, you tell me if this is basically what you have in mind. The reason I am going to ask you this is that I find at page 10 at the bottom this statement:

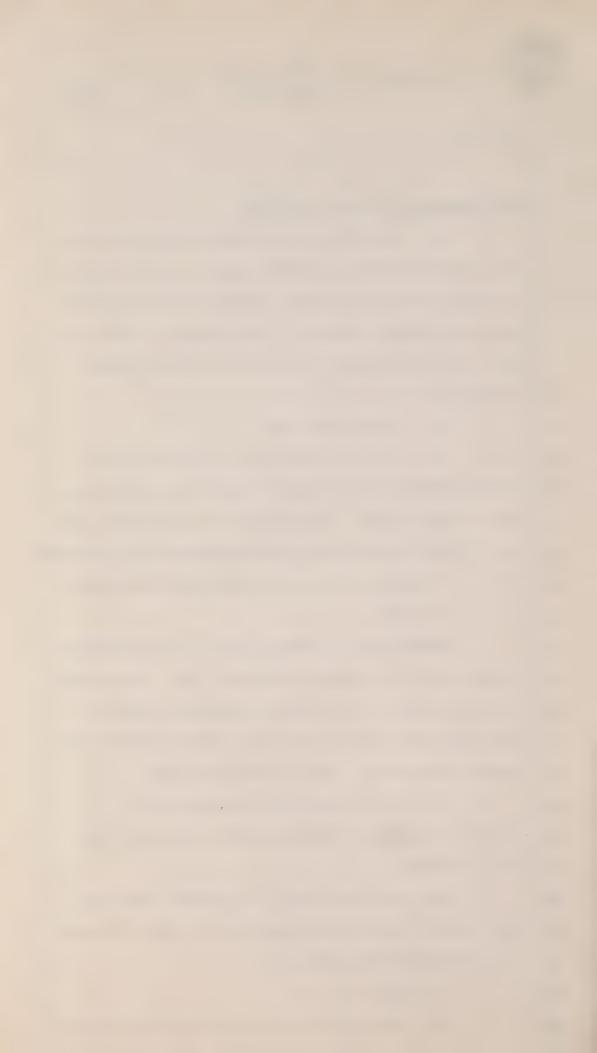
"Terminal costs do not change with the length of haul."

And on page 15 you say that you must determine terminal costs for varying distances. Now, I think what you mean is this: the costs, your terminal costs do change with the length of haul but origin and destination terminal costs do not. That is what you mean?

A. You are suggesting that this really determines how you determine terminal costs and I say that is correct.

- Q. So to take care of this really does not cause you, if this was to be applied, too much difficulty.

  I suggest that is your position?
  - A. Yes.
  - Q. What you would do is, you would take as your



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key the column 100 rates and you take them through the whole scale by mileage block?

A. Yes.

- Q. And for each of the mileage blocks you would strip out terminal costs and line haul costs by mileage blocks?
  - A. That is correct.
- Q. 50, 100, 200, right up to 3,000 miles. and so you finish up with terminal costs struck out by mileage blocks.
  - A. That is right.
- Q. The residual being line haul costs. In this way you would have the intermediate terminal costs identified for the shipment moved say 400 miles at an origin and destination with two intermediate terminals, you would have it stripped out by mileage blocks for 400 miles. Similarly, if it was only 50 miles you would get no intermediate terminal at all?
- A. I would not agree with that. I simply do not become involved in the problem. I think it would be a problem which would not be difficult to handle but I do not become involved in it. I think that is one of those decisions of the Board of Transport Commissioners when it is setting up what it wishes included in terminal costs and line haul costs.
- Q. Well, as you say -- I have to understand you because if you do not do what I am suggesting you do then you have an intermediate terminal factor that you delineated as a line haul factor and it was because of



this difficulty that I thought what you really did was strip out terminal costs throughout the whole range of the scale. Do not misunderstand me, this is not where I am going to disagree with you so do not be too suspicious. I am really at this stage trying to help you, if I may so.

A. I appreciate that.

MR. FRAWLEY: Yes "if I may say so" a very necessary qualification.

MR. SINCLAIR: Well, the second point is this, that your proposal and your plan takes column 100 rates and then it takes all the other rates in the rate structure and it does not assume, does it, that all the rates have a relationship to column 100 or to the class rate?

- A. Yes, it does. Looking at these figures which Mr. Cumming gave me, it is a sheet where we have the class 100 rates and the class 85 and 70 and 55 and 40 and 35 and 30. You take anyone of them and get the exact same percentage.
- Q. Yes, but you are in class rates working down the various columns. I want to clean up that you, for instance, mileage commodity scales or a specific commodity or competitive rates?
  - A. We do not deal with competitive rates.
- Q. Well, I am going to show you that you cannot say that. Let us go to the commodity scales, specific commodity mileage scales and specific mileage commodity rates. You say they are not columnized, if I might use that phrase as the Americans like to use it.



You say even in that case all commodity rates are not reflected in the column?

A. I am aware of that.



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- Q. And in Canada there is not as much as in the United States, possibly, but they all don't have a relationship is what I am saying. Specific commodity rates in Canada might not have a relationship?
  - A. I know where you are going.
- Q. Would you agree with me your plan does not require that because you are going to split the rates by mileage blocks?
- A. I am saying that whether this product which you are moving is a product which is not in the class rate structure -- is something other than in the class rate structure -- but is subject to the general rate increase, and it is moving to a point which is, say, 275 miles, that the per cent of line haul costs to terminal costs is the same essentially.
- Q. I am saying to you that your plan envisages irrespective of the mileage rate -- it looks upon putting all traffic into mileage blocks even though it may not be on a mileage scale?
- A. Yes, because on the mileage block you have this common denominator of the distance being the same regardless of the product that is moving.
- Q. If we are agreed your plan does work on mileage blocks irrespective of relationship, that you strip out the terminal costs throughout in applying your scheme to determine the relationship of terminal and line-haul costs, I now want to ask you this ---

MR. FRAWLEY: I don't know that the witness has agreed with that assumption.



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MR. SINCLAIR: Well, I will ask him to approach it with me, Mr. Frawley: I think he said he would leave it to the Board as to how they got out the terminal costs.

THE WITNESS: That is correct.

MR. SINCLAIR: Q. And you would also agree. and I think it is clear, if you don't strip them out at intermediate points, then the intermediate terminal costs will have a bias into your line-haul costs as distance increases?

It is true if terminal costs increase more than line-haul costs and if you did include the intermediate terminal costs it would tend to add more to the total overall rate for longer distance shipments than if you did not include the intermediate terminal costs; that is true.

THE CHAIRMAN: You could not disregard this intermediate cost?

THE WITNESS: No.

MR. SINCLAIR: Q. Dr. Little, rather than try to put this to you in words, I, last night, had this typed up and I wonder if it wouldn't be easier to follow this in my questioning. I have prepared this little table and you will see on the bottom of it the source: the source is your document, and I would suggest that this table be taken into the record at this point in its entirety, if my friend has no objection to that.

MR. FRAWLEY: Without being marked as an



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MR. SINCLAIR: Yes, just taken right into the record.

## APPLICATION OF DR. W. I. LITTLE'S COST

## COMPUTED RATE INCREASE FORMULA

Rate	Miles					
	200	7% inc.	600	6% inc.	1200	5% inc.
Column 100	184	13¢	<b>3</b> 59	22¢	623	31¢
5-	(13¢)		(22¢)		(31¢)	
Column 45	83	6¢	162	10¢	280	14¢
	(6¢)		(10¢)		(14¢)	
Column 27	50	4¢	97	6¢	168	8¢
	(4¢)		(6¢)		(8¢)	

Table IV, Page 31 Submission by Province Source: of Alberta The Cost Based Rate Increase Formula.

If you look at this table you will see the first column shows Column 100, Column 45 and Column 27, and across the top I have got the miles, 200, 600, 1200, and the reason I have taken those mileage breaks is because under your suggested illustrative table there were breaks in these mileages that are encompassed in these three areas which I have taken. You went 7, 6, 5. COMMISSIONER GOBEIL: Where is the 600?

MR. SINCLAIR: It is right in the middle of the first column; it is on the break 6.

COMMISSIONER GOBEIL: But it is not a dividing

point?



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MR. SINCLAIR: It is within the division. As I say, I have taken 7, 6, 5 I could have gone all the way -- 10, 9, 8, 7, 6, 5; but I have just taken 7, 6, 5 in the rate break; it is page 31.

Q. Well, then, Dr. Little, what I have done is taken your percentage increases and applied them to the class rates for the classes that you have taken, presumably, from our class rate structure.

You will notice by going across the page, at column 100, that the increase has marked differences, and you can take it either across the page by mileage or down the page by classification rating, and I would ask you, looking at those figures, to tell me for the benefit of the Commission whether you think those increases do reflect changes in line-haul and terminal costs.

- A. Under the assumptions I have made they could not help but reflect them -- if your mathematics are correct here.
- Q. Well, assume with me, and subject to check, that they are?
- A. Yes, I have made a quick check of them and they do appear correct.
- Q. What you are saying there is that traffic moving at column 27, that the cost increase is only 4 cents, but if it moves at column 100 the cost increase is 13 cents; do you think that is right?
- A. I am telling you this is nothing but a reflection of the scale as it exists, and I didn't make



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this scale as it exists. If it is incorrect, I am sorry.

- Q. No. But the point I am using this for -- and this point has been put to you by a number of other people -- and I am trying to use this table to show you that, I suggest to you, if you are interested in reflecting costs and distributing costs between line-haul and terminal, you can't take whatever your determination is and apply it to a rate base without very markedly distorting the relationships?
  - You are referring to the scale again?
  - Q. Yes.

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- That you have changed the scale, and I Α. have agreed, of course.
  - But markedly? Q.
- Costs change, times have changed and relationships have changed.
- Q. But you are going to change it, I suggest to you, from this table, not in relation to cost changes because the base that you are working from, which is the big number -- if you are going only to use a small number, which is cost on top of base -- is going to be distorted very markedly, as this table shows; can you see that?
  - A. No. I can't see that.
- Well, now, Dr. Little, you say the railways in Canada have stated an across-the-board increase in rates is equitable; this is on page 1?
  - A. Yes, I believe you made that statement,



almost, a moment ago.

Q. Yes, I would not be at all surprised if that is a quotation from me. Of course, it is not my purpose to give evidence; that was an argument I was making. In any event, we accept that is the position of the railways -- and it is, no matter who says it.

That is the position of the railways.

You then move from that and say this: "There is involved an inherent assumption that new rates should equitably reflect the changes in the costs."

- A. What page are you on now?
- Q. On page 1 at the bottom of the page.

  In other words, you equate equity and costs; correct?
- A. I am still trying to locate exactly where you are.

MR. FRAWLEY: In the very last paragraph of page 1.

MR. SINCLAIR: Q. "If the purpose submitted by the rail carriers for the changing of existing rates is a change in costs, there is involved an inherent assumption that new rates should equitably reflect the changes in the costs." Right above that you had stated that the railways of Canada and the United States have stated that an across-the-board increase in rates is equitable?

- A. Yes.
- Q. What I am saying is that basic to that is your assumption, and you are equating equity equals costs -- equity and costs determined are equated;



correct?

- A. Let me start this again to be sure we are in complete agreement on this.
  - Yes? Q.
- If you start with an assumption such as this, that people should be charged additional rates in accordance with the increased costs of providing the service, and you have a base which is correct and equitable, then it seems that it would be equitable to charge them the increase in the costs, yes.

---Luncheon adjournment.



-- On resuming at 2 p.m.

THE CHAIRMAN: Order, please.

MR SINCLAIR: O Dr. Little

MR. SINCLAIR: Q. Dr. Little, before the luncheon adjournment I was discussing with you this table which I prepared with the assistance of my adviser, Mr. Edsforth, and it is all the data in the table that is now part of the record and which is before you taken from your paper and tables attached to that paper.

I put to you that this table indicated that your formula would not result in the increase being cost determinant, and you said to me that you would not agree with that.

Now, over the luncheon recess, I know you have looked at this and I want you to follow with me, and if you take your pencil and just do this: you will note that I have column 45, and I am going to go across the page.

Across the page, for 200 miles, and with a 30,000 pound minimum carload, I am going to keep this constant; column 45, 200 miles, 30,000 pounds, the increase would be \$18.00 a car. For 600 miles, it would be \$30.00 a car, and for 1200 miles, it would be \$42.00 a car.

Now, for column 27, again, 30,000 pounds. For 200 miles, it would be \$12.00 a car; for 1600 miles, it would be \$18.00 a car; and for 1200 miles, it would be \$24.00 a car.

I ask you to observe that although the weight and length of haul remains constant, the increase, which is supposed to be under your plan cost determinant, in





## ANGUS. STONEHOUSE & CO. LTD. Little, er.ex. foronto. ontario (Sinclair)

regard to column 45 the increase between 200 and 1200 miles is in excess of two times; that is, 18 to 42. But, for column 27, it is exactly two times.

In other words, that although the work is the same by the railroads, the distance is the same, the haul is the same, all the cost factors are the same, your rate figures formula increases one substantially more than the other?

- A. Yes, it would have to.
- Q. And it is for this reason I suggested to you that your plan is not cost determinent in applying increases?
- A. And my answer to that is, Mr. Sinclair, this: that these dollar figures which you have worked out take into consideration the taper that exists as the result of column 45 all the way across, and column 27 all the way across.

And you were applying these percentages times an existing rate which was different in each case, and you cannot arrive at anything other than precisely what you did, and if you look you will see that your figure of \$18.00 -- the relationship of 6 to 18 is exactly the same as 14 to 42. The relationship of 6 to 14 is exactly the same as 18 to 42; the relationship of 4 to 8 is exactly the same as 12 to 14 in column 27, precisely, and the fact you are not getting exactly the same dollar or percentagewise shift only comes from the fact that you are multiplying cost percentages times different bases.

Q. Well, of course, because if you look



vertically you will find on what I have given to you that although I have got the same weight and I am going the same distance, merely because I have rated the traffic differently, you have in one case under 200 miles an increase of \$18.00, and in another case, \$12.00.

A. Exactly. You would not want me to throw out the taper that existed prior to the increase; and the only way it can be as you think it should be would be to throw out the taper that existed prior to the increase.

Q. I am only trying, Dr. Little, to see whether it increases our cost determinant. And I thought that you would speak to me and answer me in the way you have, and in anticipation of that I made one other calculation.

Assume, if you will, as is the fact, that as you descend in the columns of the class rate scales the minimum changes, so , I am going to take column 45, as I have put to you, at a 30,000 pound minimum and I will ask you to add underneath that at column 27 at 40,000 pounds; and if you do this you will find the calculations are this: at 40,000 pounds minimum, under column 27, I will have \$16.00; for 1,600 miles, \$24.00; and for 1200 miles, \$32.00; and looking at those figures, I suggest to you that what they immediately show is that withstanding that I have put additional weight into the work being done under column 27, the increase is less for 40,000 pounds than it is for 30,000 pounds.

And I am asking you to tell this Commission





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how you can increase the work, and there is some work associated with weight, and if it is cost determinant, have increased weight, increased work, increased cost under your formula resulting in an increase?

A. It could not possibly be otherwise than what you have given it. I see no argument with these figures at all.

What you are suggesting now is that we get a \$16.00 charge for column 27 rating for a movement of 200 miles compared to \$18.00 for 30,000 pounds movement under 45, and you are suggesting --

- Q. Just a minute. 40,000 pounds; you get \$16.00 --
- A. And you add \$18.00 for 30,000. That is your point, is it not?
  - Q. That is my point.
- A. And I say to you it could not be otherwise.

  You see, I do not establish the ratings; the Board of

  Transport Commissioners has established these ratings,

  and it is these ratings which are multiplied times a

  fixed percentage and that is responsible for these

  differences in figures.
- Q. You see, Dr. Little, as was put to you by a number of other people here, and this was just to bring this into focus, for the increase to be cost determinant, line versus road haul, would require you not to use the relationship of line and road haul and apply a percentage to a number as if they were absolute, which you have to do unless you depart from the value of



service concept of pricing that is in the basic pricing

structure. You would not agree with that?

that are different.

A. No, not at all. What you have here is a situation in which for many reasons, compounded or otherwise, we have a greater charge for a given weight on a product moving at one rating than you have at another rating; very considerably different charges. And what you are saying is, is it not interesting that when we apply the same percentage terms to these figures that the dollars that are forthcoming are not exactly the same. I am saying to you if you start with a base very different you could not help but come out with dollars

Q. Dr. Little, it is not only interesting but the reason that a straight percentage does give you these differences, I suggest to you, is that by taking a percentage increase -- you can make the calculation, if you wish, on that basis -- you will find that by using a flat percentage or what we call a horizontal percentage increase that you will continue to reflect the value of service characteristics that were in the basic rate structure. But, when you do what you do, and attempt to put it cost-oriented, not only can you not make it cross-oriented because the base is not cost-oriented but also you distort the value of service characteristics that were the determinant of the basic rate structure. I ask you if you agree?

A. I would be hard put to figure out anything which is more incorrect. I cannot agree with



you, Mr. Sinclair, in any respect because what is happening is this: when you started with a given scale and you applied a flat percentage, of course you retain the exact scale. You are suggesting this is what we are saying, and I am saying we are not saying that at all.

We have a complete change of circumstances here. We have now cost relationships that require that that scale be altered, so that when you tell me it is altered, I am not at all surprised. I say that is correct. This correction we have made that adds to a given base an added given number of dollars, which are a measure of the increase in costs, are in fact not a distortion but to prevent a distortion from taking place if you had applied the flat percentage increase.

- Q. Dr. Little, if your scheme measures the additional costs that have taken place, please tell the Commission why for handling a car of more weight the same distance cost determinant makes the increase less?
- A. Because percentage applied to different bases come out with different results. That is the simple, brief answer, and it is just as fair and logical and proper as that can be.
- Q. It may be fair and logical, but what you are saying by that -- if you are saying by that that the base to which you use the same percentage increase you multiply with a higher base gives you a higher answer than the lower base, we teach that pretty far down the line, and if that is what you are saying, I am sure that everybody understands it. But I am saying to you





## ANGUS. STONEHOUSE & CO. LTD. Little, cr.ex. (Sinclair)

that you said that you were attempting to accurately measure the increase in relationship to cost ---

A. That is right.

Q. -- and I say that it is impossible for you to do so because the base is not cost determinant, and it has to be cost determinant for you to accurately use a cost determinant increase?

A. I would say no.

Q. And I ask you to say to this Commission if your increase is cost determinant -- keep right on this -- if your increase is cost determinant, please tell the Commission how an increase could be less if it is cost determinant for carrying a heavier load the same distance

as a lighter one?

A. Simply because the percent is applied to a dollar cost figure based upon the rates which are given which result before the increase is applied at different costs, and therefore when the same fixed percentage is applied to those different costs for the same weight for the same miles you must come up with different increases in the costs.

Q. With different increases in the costs?

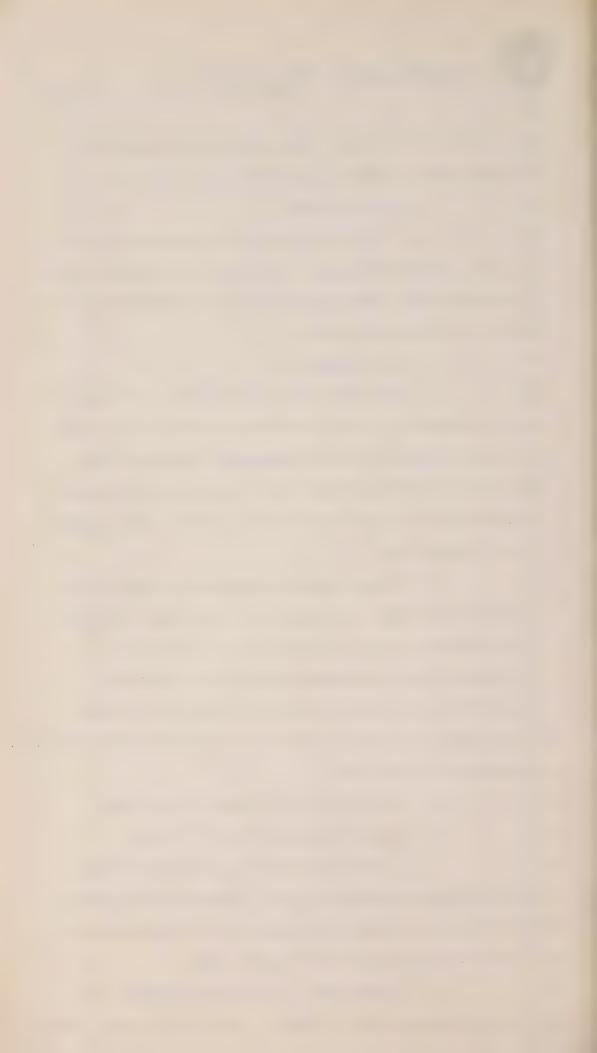
A. As you have indicated, 18 to 12 --

Q. I suggest to you that you do not come up with different answers as to the increases in the costs;

you come up with different answers as to the increase in

the rate, having nothing to do with cost?

A. I think that is a correct statement that you just made. That is right. I would accept that. What



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you are doing is increasing the rate based upon increase costs. That statement was correct.

- Q. Now, Dr. Little, do you suggest that rate increases should not reflect value of service characteristics?
- A. I am saying that if you come before the Board and ask for increased rates based upon increased costs that this formula will give you the results, but if you wish to change the value of service characteristics, and you feel that for competitive reasons because this is, is it not, the principle reason that we do make differences in rate bases on value of service, or what the traffic will bear, so to speak, that if you do apply this procedure, I am suggesting you go directly to the source of the problem, which is the particular rates that are out of line, change their classification, or change their rates, put them into competitive status.
- Q. Let me then ask you whether your plan -because we seem to get at cross-purposes on these words -would your plan be applied if the railways came forward
  for a general increase in rates because of a change in
  commodity mix?
- A. I am not quite sure that I understand what you mean.
  - Q. Well, under the Canadian freight rates --
  - A. Are you talking about class 10 or rule 10?
  - A. No, no. I am talking about this, Dr.
- Little -- I am not talking about mixing rules under the classification at all; that is nothing to do with this



question.

A. All right.

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Q. The dollars that made by Canadian Pacific are made up of the relationship of commodities moving at various rates per hundredweight?

A. Yes.

Q. And if the proportion, if the number of tonmiles remain the same, but if the proportion of high
rated to low or medium changes, the end result in dollars
changes --

A. All right.

Q. -- and I suggest to you to assume with me that Canada's development in the extractive industry which are moving at low rates, the addition of sulphur and potash in western Canada and the erosion of the high rated traffic, if you like, because of import competition into Canada, results in the ton-miles remaining the same, but the Canadian Pacific having a higher proportion of low rated traffic; and, in view of this, the railways come to the Board of Transport Commissioners and they say to them, our commodity mix has changed becaused of not only changes in cost but changed conditions which is higher imports from the manufacturers and the railway carrying a larger proportion

and doing the same kind of work on extractive commodities.

Now, the Board under the law can change and alter rates

A. Would you make the last statement again?

from changing conditions in Canada.



Q. Under the law in Canada the Board can

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A. Is this "an altered rate"? Q. Change and alter rates not only for cost of transportation but for as changing conditions may

from time to time require. It is an alternative.

A. Oh, I see.

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change and alter rates ---

Q. So I now have given you the changing conditions on a commodity mix and I am asking you to tell this Commission ---

MR. FRAWLEY: What my learned friend is doing, of course, is a little interpreting and submitting a legal argument as he goes along. Section 38 of the Act certainly empowers the Board to change and alter rates as changing conditions may from time to time require. Is my learned friend now saying that one of the changing conditions referred to is the fact that you are carrying too much, shall I say, skelp to Vancouver and not enough higher rated traffic, and that is a condition which warrants a freight rate increase.

MR. SINCLAIR: Now, just a minute.

THE CHAIRMAN: You are asking for an opinion.

MR. SINCLAIR: I do not think anyone will

disagree with the interpretation of this because it has been argued before the Supreme Court, the fact that it is an alternative, the changed conditions. I was very careful to put in the situation which he might envisage, but a situation completely outside the



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railways entirely. I had changed the commodity mix because of import and Canadian manufactures moving by rail, the ton miles having completely offset the per ton mile by the recent industries in Canada. is the situation. With all due respect to my friend, he may be from Alberta but other people know a few things too and this is not improper in the present situation.

MR. FRAWLEY: I challenge the interpretation so you can go on from there. I do not think my friend has laid it down as the only interpretation to be placed upon it and if the witness must have my friend's interpretation to enable him to answer the question then I suggest the witness is going to find it difficult to be responsive to your question.

THE CHAIRMAN: Ask the question.

MR. SINCLAIR: Q. So you will not feel under any disability by accepting my interpretation of the Railway Act we will do it this way: assume with me that the Board of Transport Commissioners can make a general increase in rates for changing conditions?

- A. By "general increase in rates", you mean change the scale of the rates?
- Q. Change the scale throughout the whole piece. They authorize the railways to make a general increase in rates for changing conditions and changing conditions alone. How, would you please tell the Commission, where the ton mile remains constant and the changed conditions have resulted in the traffic being less and the manufacturing being less, how would your scheme work?



- A. This scheme would work considerably better than the flat percentage method because the flat percentage method does not make any change whatsoever in the scale, it does not approach it in any way. One of the factors which might be responsible for this desired change could have been a change in costs. In that case it would have attacked it directly. But suppose for a moment there were other factors which you have suggested which are not changes in cost, under a flat percentage method there would be inherent in it no way of approaching this problem. Under this procedure which I am suggesting here all you have to do is change the classification of these products or put it into a competitive rate status.
- Q. What you are suggesting to make your scheme work under these conditions, the railways to get their revenues should change the classification, we will say, on sulphur from column 27 to column 45?
- A. It will certainly give them different results in total revenue if the volume does not change.
- Q. That is the way you would meet the pro-
- A. I am suggesting there are a number of alternatives and this is one of them.
- Q. And you do the same thing, Dr. Little, if the cause of the general increase was a change in income tax alone? Just a change in income tax.

  We assume that the government in its wisdom has changed the income tax rate from 40 per cent to 50 per cent.



wisdom?

COMMISSIONER ANSCOMB: Would you call that

MR. SINCLAIR: I am speaking in parables.

MR. FRAWLEY: How long have you been speaking in parables?

MR. SINCLAIR: When I am talking about income tax and when I am talking about poor Alberta. I use the word "wisdom" with respect to income tax and "poor" with respect to Alberta. May I start again?

Income tax here is a cost and I am asking you to tell this Commission how your scheme -- I use the word "scheme" with no offence at all -- your proposal would work with respect to adjusting a general rate increase based on an increase of 10 per cent in the income tax rate?

- A. Well, you see, there are many types of tax and you would have to find out what type it is. Is this tax you are applying a fixed or variable cost and how does it apply, in fact, to the line-haul and the terminal cost?
- Q. You may say it is part variable, it has effects on variability and effects on fixed costs. I have picked this one deliberately so it is not too easy. Now, there is part of it in variable and part of it in fixed; how do you work it out? You are going to apply your plan ---
- A. I would, if I were a railroad, or, in this instance, the Board of Transport Commissioners, certainly have a tax of varying types appropriated or



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allocated in a proper cost accountant way into the areas of line-haul costs and fixed costs. If we found, for instance, that a large portion of these costs should be appropriated to the line-haul then they would have increased line-haul costs to that extent and they would be accounted for in the percentages that would apply.

- Q. Dr. Little, income tax applies to taxable income and the increase I have given to you is taxable income. Are you suggesting the Board of Transport Commissioners should determine the profitability or the earning ability of line haul as against terminal operation?
- A. There is no doubt but in the breaking out of the costs they are going to have to arrive at a working procedure.
  - You mean by that an arbitrary procedure?
- A. Yes, this is a cost and all costs are going to have to be broken down in this way. These determinations, I think, are being made daily. I do not think this would be difficult to work out, there would be problems and unhappiness resulting no matter what the decisions were that were forthcoming, but it is not an insurmountable problem.
- Q. And it is your opinion the formula such as assures the increase in rates will reflect the increased costs for individiaul movements?
- A. Well, when you say "individual movements" --what we have here is an increase in line-haul costs and an average of increase in terminal costs for the



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tions from the average the results of your proposal

would be that it would not be cost determinant. Correct?

Q. Dr. Little, in so far as there are devia-

system and they are applied times the rate for each block. I might say what you are working towards is the question of an average and that is true.

- Q. In other words, you are anticipating my line of questioning to say that this is true, that by using averages for the basis of your cost based rate increase formula it is impossible to reflect the cost increase factors for individual movements.
- A. You can closely reflect the cost in an individual movement. Because you are working on an average basis does not prevent you from working it. You can carry it down as far as you want, work it down from territory to individual movements. However, I suggest you do not do this on an application because it would result in such an infinite amount of computation. We have given averages and what we are saying to you people is "What are your increases in line-haul and what are your increases in terminal in general?" We say. "Given a particular movement we will determine what part is line-haul cost and what part is terminal, and we will apply the percentage increase for the line haul and for the terminal for the whole system times this." What you come out with is something that quite accurately reflects, with a reasonable degree of application in directness, what the increased costs are for the individual movements.



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In so far as there are deviations from the average in individual movement it would not be cost determinant?

- A. Your use of the words "cost determinant" is what is stalling my answer. I would like you to repeat it so we are sure we are talking about the same thing.
- Q. In so far as there were deviations from the average your proposal would not be cost determinant?
  - Α. Right.

- Correct?
- Α. Right.
- In so far as there were differences in 0. costs associated with differences in weight your proposal would not be cost determinant?
  - A. No, I would not agree with that.
- Q. That your plan would result in heavier loadings moving the same distance having a lower increase although there was a higher cost and a lighter load?
  - A. You are referring to the table?
  - ۵. Yes.
- Again I say to you this has nothing to do with any railways in building the formula. It is because you are working on a different base.
- Q. By assuming averages for the determination of terminal costs you do two things: first, you assume that terminal costs -- you assume that it is in order to apply an average terminal cost across the system. You have spoken about that. But, in



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addition by using averages you give no weight to cost determinants by routings. For instance, a movement that starts on a branch line and moves through one major terminal and finishes at a branch line as against a movement that starts on a main line and finishes at a main line having moved through three or four major terminals. Correct?

- A. That is correct.
- Q. You give no effect to that?
- A. Wait a minute, do not go too fast. You see, what we are proposing is something which does take some consideration of this whereas the procedure which has been in effect for all these years takes no consideration of it.
- Q. That is a question of argument and I will come to that at an appropriate time.
- A. I am 'saying if you want to follow the true theory of this formula down to the smallest detail you can accomplish what you suggest this does not do.

  This does everything you want it to do, but it depends on how refined you want to go in its application.
- Q. I just want you to agree with me that the proposal that you have given to this Commission does not give weight to cost characteristics on different routes. That is a short way of putting it, and the answer is?
- A. The answer is when you do arrive at your general percentage increase across the country for long haul you do not, when you come up with one



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figure, you cannot handle five thousand different shipments. This is something that is very, very true, you won't be able to suggest anything that ever will.

- Q. Now, in your Table III you have used a cost figure for terminal costs of 62 cents. You will agree that this is predicated solely on the fact that there are no terminal costs that are taken into account other than the origin and destination terminal costs?
- A. No, sir, I would not. This was a very arbitrary selection, and this formula in no way turns on that selection of 62 cents.
- Q. I am awfully sorry. I am not taking the number as being a determinant, but the fact that this constant for 3300 miles, 62, 62, 62 --- my point is the same whether it is 75 or 25 or 35, but the fact I put to you is that it is constant throughout the scale. I say to you this means you have reflected in your calculations only the origin and destination terminal costs.
- A. I have anticipated that question and I have worked on it for some time to search out what the answer would be to what you are suggesting. If you remember this morning when this question was directed to me I pointed out that when it was determined what were line-haul costs and what were terminal costs, at that time when that decision was made and when as a result of that decision you compute what the percentage increase in terminal costs long-haul were on the line you handle this problem.



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	Q.	Very w	ell, i	f you	say tha	it is	the	fact
then that	is wh	at you	would	l say.	Then,	can y	rou t	ell
me why yo	u get	by the	very	high	mileages	prac	tica	lly
no termin	al cos	t at a	11?					

- A. It just happens that these figures do turn out ---
- Q. That, of course, is not the fact because the terminal cost ---
- A. It happens that out of a total charged here at 3300 miles, \$15.24 that 62¢ represents a pretty small portion of it. That is what you are saying.
  - Q. That is right.
  - A. Yes.

- Q. And that, of course, does not properly represent the terminal cost for the 3300-mile movement?
- A. Then if you use the proper correct terminal cost ---
  - Q. And hold it constant throughout ---
  - A. On an average, yes.
  - Q. On an average?
  - A. Yes.
  - Q. Have you considered this mathematically?
  - A. Yes.
  - Q. You have?
- A. Yes, this is the average you are talking about now?
- Q. This is the average of all terminal costs of the system.
  - A. Let me showyou what I mean. Let us



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suppose, for instance, just by way of assumption, that they decide that there is a switching point every thousand miles of travel or five hundred miles of travel.

- Q. I would suggest for the Canadian Pacific it would be more in the way of 125 miles or 150 miles.
- A. I pulled this out of the air, it makes no difference to me.
- Q. It makes a difference to the impact of it and I suggest this railroad is set up on the basis of about 125 miles to 150 miles of terminal operation.

  One hundred and fifty on the average, perhaps.
- A. When you compute what the average per cent of increase is in terminal cost using this computation, these figures on the average, you will come out with justification and correctness far beyond what the flat percentage increase will give you.
- Q. You say that the increase will come out far beyond what the percentage increase will give you?

A. Yes.



Because in the line-haul cost factor



Q.

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there is something other than pure line-haul cost because in arriving at the average of the terminal costs you have averaged your origination and destination terminals with intermediate terminals?

A. Yes.

- Q. Which -- the latter?
- A. When you are determining your terminal costs throughout the railway system and determining what this cost would be, and arriving at a percentage of increase in these costs for the whole system, on the average, this percentage applied times terminal costs will reflect the additions of those types of expenses that you are referring to.
- Q. Well, I want to go back -- and I am afraid this is my fault -- I am asking you, and I put it to you again, is the reason for your insistence on this that your plan envisages the average terminal costs being an average of origin and destination terminals and intermediate; that is my question.
- have not directed myself to this determination in this study, that this represents a small area in which there will be some work to be done, but, if you will, it is like when we sit down at the university to decide we are going to raise the entry standards from 2 to 2.5. We do not go out in detail and say, what will this do to the seniors in the high school level, and the juniors or the sophomores. When the general



proposal is made and adopted by the senate of the university, the theory in total is accepted and they work out the details. I am doing this here. I am saying many of these small problems which you are bringing out will be worked out.

- Q. But it is important to look at some of the ramifications that might happen?
  - A. Yes.

- Q. For instance, to carry on with your analogy, if, by raising the entrance standards and the relative maturities of boys versus girls, you have a university full of girls there might be somebody who would object?
  - A. I don't think so, not in Washington.
- Q. My point to you is, ramifications that flow from decisions made in advance have to be considered and tested, and it is important to do this, and that is why I say to you that you would brush aside some points that are very important by saying, "They are a detail you can work out," because, I suggest to you, that the average of terminals, if that is what you wish to do, of origin, destination, intermediate, resolves itself in one way, and if you are, in your terminal costs flowing only from origin and destination, and let the intermediate reflect themselves in line haul ----
- A. We are anticipating a problem which could never exist. I do not know how the Board of Transport Commissioners will answer the problem you have established It may be they will not prefer to include these inter-



mediate switching details. I would suggest when that time comes, perhaps they will sit down and work on this.

- Q. It may well be this, that when you get it through, and if they determine to leave intermediates as part of the line-haul cost that the result would be the calculations would come out that the cost increases were falling tolerably within limits of being spread even?
- A. I am sure -- and you will agree to this

  -- that these very small switching operations that take

  place represent a pretty small part of the total cost of

  transportation.
- Q. Well, I would not agree with that, Dr. Little, no.

with it is that you said -- and the reason I deal with it is that you said this morning in relation to these two items, one at the bottom of page 7 and one at the top of page 8 -- you said this must be accomplished for your plan to work. I am paraphrasing you -- they were absolutes; they were necessary. These two are, first, be capable of computing an overall percentage change in rates for each mileage block so as to correctly reflect changed costs when the percentage change in costs related to length of haul has been different from the percentage change in costs not related to length of haul; and secondly, be capable of applying the computed overall percentage increase in rates for varying distances to existing tariffs, thereby eliminating the need of changing existing tariffs each time a change in



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rates is required.

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First, let me ask you this: do you know that the equalized class rate scale in this country is not operative throughout the entire country?

- A. I have heard that.
- Do you know that it does not apply in the maritimes?
  - I have heard that.
- And under your plan would you have a different increase on traffic to and from the maritimes than you would for comparable distances elsewhere?
- A. The answer is very simple and direct; if the Board of Transport Commissioners see fit to have a different scale existing in different parts of the country, then I am not the one to do anything with this formula other than apply it times the scales which do exist for those areas of the country.
- Q. I am going to ask you, Dr. Little, that in so far as it does exist it prevents your increase from being determined by cost?
- A. It does not prevent it. It can be applied very well. If at some future date they wanted to have fifty different scales in Canada it could be applied just as well. You are increasing the rates which do exist in those areas by the cost, and that is all this formula does.
- Q. But the costs will go up, let be say, the same in Ontario as they do in the maritimes, and yet you are going to have a different increase for the



same length of haul for the same amount of work in the maritimes than you are in Ontario?

- A. If you have a different scale you will come out -- you could not expect to start with different scales and come out with the same scale.
- Q. And that is why it cannot be cost determined?
- A. It can be cost, and it is cost. It does adjust each of these in accordance with their increase and their cost.
- Q. If the costs are going to be related to mileage, I suggest to you this, that by taking your proposal and applying it on a movement from Halifax,

  Nova Scotia, to Windsor, Ontario, and using your tables and using actual mileage, so that I can properly reflect everything, I am going to suggest to you in applying it to the existing rates that the increase will be such as to make a rate from Halifax, Nova Scotia, to Windsor,

  Ontario, compared to a rate from Saint John, New Brunswick, to Windsor, Ontario, which is a substantially shorter distance it will result in the short distance, Saint John to Windsor, having a higher rate than the long distance, Halifax to Windsor?
  - A. I don't believe this is so.
  - Q. I will call a witness to prove it.
- A. I would like to see the distances, and I would like to see the scale of rates; I would like to see the percentages, and under the direumstances I would then approach the question, but I could not do it without



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all the facts.

- Q. Let me tell you the reason that this will work in this way: it is a question of distances and groupings ---
  - A. You are talking about group rates?
- Q. I am talking about groupings, and not group rates. In other words, that the groupings and the rates are not co-terminus; in other words, another way of putting it is, it is not like the table you had of having competing mileages because the rate is not fixed on the basis of the mid-point of the group, and that is why I have given you this example, and I suggest to you ---
  - A. Yes, I have anticipated this question.
- Q. Well, will you give the Commission your answer?
- A. The answer is, if you do have a situation, in a group or area, in which you have the same rate, then you use the rate base of that area and apply the percentage.
- Q. Even though it does not properly reflect in group rating the mid-point to establish the rate level?
- A. You apply the rate -- the percentage to the rate base and apply that percentage times ---
- Q. Even though it is not a group where the rate level is fixed on the mid-point of the group -- irrespective of how the rate level and group is fixed?
  - A. I have a feeling you are grasping at



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something I don't fully understand, but as far as I can see, yes.

- Q. Therefore, notwithstanding the fact the rate group may be fixed -- that the rate level for the entire group on the short mileage -- and you are going to use that as the determinant of cost, you still say your method would result in increases reflecting costs?
- A. I am saying that for the rates and for the cities for which these rates are applicable, which started out with equal rates in this general given area, if you apply this percentage times it you will end up with the same rate again for all these varying points, and that they do, in fact, represent increases in cost on more of an average basis for the groups in the area. What you have done is prefer by selection to retain equal rates in the group area. It does not mean the formula cannot be used. It can be used just as effectively as you use your percentage increases under the horizontal method.
- Q. Dr. Little, I wish you to consider with me the second of your essentialities, and that is that it was easy of implementation by what you call a simple one sheet -- I don't mean by that that you can't, because you have got to go 1300 miles, turn the page, but it is ---
- A. Relatively speaking it is a very simple thing.
- Q. I suggest to you that because of the numerous variations that come from the necessity of



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applying it to varying conditions such as the one I gave you to and from the maritimes, that you can't do it by a master tariff with link supplements. Have you considered the impact of groupings, the impact of differentiations in loads and the particular effect on costs being reflected by a master tariff with link supplements?

- A. If I follow you correctly, I have.
- Q. And you say it still can be done?
- A. Yes, I say it is not difficult at all.

  This situation of a series of group rates would not create difficulties in the use of this formula, and with the simplicity that I have in mind, likewise, because what you have here is rate established upon a rate base. It may well be that the Board of Transport Commissioners, just the same as we in the State of Washington have our Washington Public Service Commission, determined what will be the rate base and determine as a matter of fact ---

MR. FRAWLEY: Not yet they don't there is no rate base in Canada.

MR. SINCLAIR: Q. There is one other thing I would like to put to you in that regard. You talk about simplicity, and in answer to Mr. Commissioner Gobeil this morning you stated ---

- A. What is very simple?
- Q. This plan of yours made things very simple in regard to competitive matters because you were not going to apply it to competitive rates?
  - A. Yes, I remember that.



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You remember the question put by Mr. 0. Commissioner Gobeil, and your answer was "Precisely" or "That is right". I suggest to you that even though you exempt competitive marked rates, that is. designated by tariff action, that does not solve your problem at all because, first, you have point to point or other rates that are designated normal commodity rates that are reflecting competitive conditions; and secondly, that the attrition factor which requires under our present plan and the way we operate of having a lower percentage increase on some of the rates than they would have for other rates, cannot be taken into account under your scheme?

It could be taken into account just as well. As I understand it, when a percentage increase is applied at the present time, that the Commission does not require the railroads institute them, and I think the same would be said here.

- But yours is tied to the recovery of a cost in a determinant way, but at the present time the railways calculate attrition and apply different percentage increases so they can maximize their net revenue to their various classes of traffic, and I say under your plan, if you are going to allow them to do that, it is physically impossible to operate with a master tariff and just link supplements?
- Well, I am not sure again that I am in complete understanding of what you have in mind. the word "attrition" were you talking about decrease in

relivays calculate ator. Mor. and apply different percentage increases to troy the resulting their tebravene to restrict various classes of brafits, and I say under your plan, if you are going to allow them to

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do that, it is poysically incressible to operate with a

complete understanding of what you have in minl. By the word "autricion" were you tilling about decrease in

volume by increases in rates?

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- Q. No "attrition" is the word that we interpret here to mean a decrease in the theoretical mathematical yield from applying a given percentage to a pre-existing level of revenue.
  - A. All right.
- Q. And "erosion" is where because of increased costs the railways must shed certain traffic, or where because of increased costs and increased rates there is relocation or alternative sources of supply which results in loss of traffic?
  - A. Yes.
  - Q. Now, are we one?
- A. I am not sure how close we are one, but I think I have a pretty good general idea of what you are meaning.
  - Q. Yes.
  - A. Now, would you repeat the question?
- Q. Under your scheme where there is attrition of revenue because of competitive situations, how can your plan operate to give effect to that attrition and at the same time be handled by a single master tariff?
  - A. Would you again define "attrition"?
- Q. It is the amount of revenue that competitively must be foregone from the mathematical yield
  that would come from applying the absolute percentages
  to the revenue that was pre-existing.
- A. Well, I have suggested in the format of the submission itself that this would be handled in



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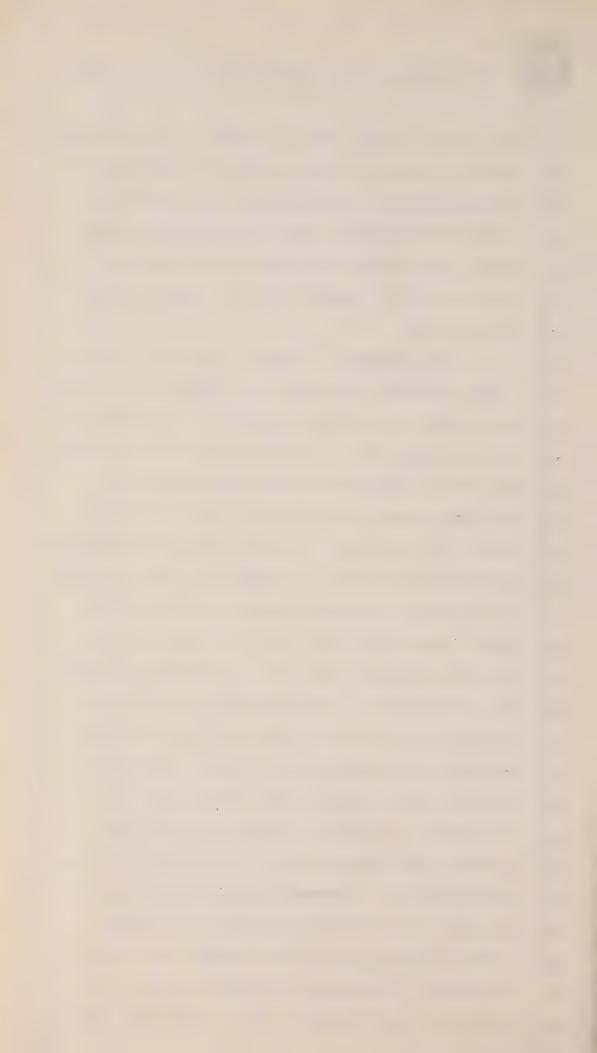
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much the same way that you do it under a flat rementage increase, that you do make an estimate of what this so-called attrition is, that you will make an estimate of what the attrition is under the application of the formula, and that you will scale up the formula in order to arrive at enough revenue to account for the attrition loss.

MR. FRAWLEY: I know Mr. Sinclair is putting to the witness the situation in all honesty and sincerity, but I do want to call to the attention of the Commission and the witness that it is not as simple as Mr. Ginclair would make it sound when he talks about the way in which the railways endeavour to meet with factors of erosion and attrition. Its percentage increase it giveh, and the railways go back to Mintres. and ther do as well as they can to meet these factors, but there isn't any simple formula laid down. There is a good deal of trial and error, and many times -- I remember an instance the last time where I was examining Mr. Edsforth very carefully as to whether he was going to ret or certain increases on a certain piece of traffic, and he said, "I assure you, Mr. Frawley, the increase will go on that traffic." Now, Mr. Edsforth said that quite sincerely, but what happened? The increase itd not go on that traffic. Afterwards they found they could not put it on or they would have lost the business. I think it is only fair to this witness who comes here from Seattle to endeavour to present a constructive submission to the Commission, that he understand that



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the railways have not got a simple problem in endeavouring to meet these problems.

THE CHAIRMAN: I think that is one of the reasons behind Mr. Sinclair's questions.

MR. SINCLAIR: That the railways have not got a simple problem in dealing with general revenue cases certainly would not have any dissent from a person like myself. We have a very difficult problem, and I don't want the Commission in any way to think that because I am putting questions like this to Dr. Little that I am saying he is not coming here in all sincerity to try to put a plan forward. Of course, we are looking at it, and looking at all plans, but I think it is my duty, and I hope I am being of some assistance in pointing out some of the troubles I see in it.

THE CHAIRMAN: You are quite right, Mr. Sinclair.

MR. SINCLAIR: Q. I would like you to tell me, Dr. Little, for the assistance of the Commission as to how you would determine the revenue result from the proposal that you have. For instance, to make this precise: the railways are met with the need for additional revenues of \$20 million, and they are required to apply your formula for the increase: how do the railways determine the revenue result from the application of your formula?

A. A very practical question. When you determined that 20 million you determined it by adding your costs and revenue and finding what the



A. Yes.

difference was between them. In the process of doing it, you determined what your costs were. Now, when you compute your costs under this procedure which you have implicitly stated, and you arrive — taken given dollar costs and with the consequent converting of these into percentage of the per cent of increase, then, if the percentages are accurately applied you will be coming forth with sufficient income to cover these increases in costs.

Q. Well, I have a different increase, under your scheme, for different mileage groups. How am I going to determine how much traffic is in each mileage group -- how much dollars of revenue are in each mileage group? Are you suggesting that the railway first go through all the waybills and all mileages on them?

A. Oh, no.

Q. You know that an agent on a railway or a shipper -- he does not fill in mileages; so that I have got hundreds and thousands of waybills and I have to know what my earnings are precisely?

A. Yes.

Q. I have to know them precisely by certain mileage blocks?

A. Yes.

Q. And I have to know them also and arrange as to the effect that the increase would have on low-rated versus high-rated so that I can properly look at my erosion and attrition factors?



- Q. How am I going to get all this information?
- A. You would already have it when you come forward with this 20 million figure. It would be in your hand.
- Q. I haven't got that big a hand. You say
  I have it in my hand, but how many months does it take
  me to get it?
- A. I am not familiar with how long the railways spend in providing the required data for the Board of Transport Commissioners and the ICC. I don't know and I am not trying to be facetious. I am saying this: when you determined that you needed \$20 million you had to go through a certain degree of financial investigation the regular report. what were your costs, what were your revenues all right. Suppose you had determined that you do not have as much revenue as you had before: then, clearly there must have been some shift in the costs or else a shift in the volume of traffic?
- Q. I think we are at cross purposes. Under your proposal I have to know two things. I have to know precisely, meticulously, for Canadian Pacific, because in presenting figures in a general revenue case for Canadian Pacific, with the help of my friends down through the years, we have learned that you must be meticulous?
  - A. Yes.



## ANGUS. STONEHOUSE & CO. LTD. Little, cr.ex. (Sinclair)

29 yield?

Q. So you have to meticulously determine by blocks the revenues for these various blocks and, in addition, you have to meticulously determine the rate level ranges that are behind that block of dollars. I am asking you how long do you think that it would take Canadian Pacific to get that kind of detailed information to show the yield that will arise from the percentages proposed?

MR. FRAWLEY: Does that my friend say that he goes before the Board in a revenue case with information which will show the revenue yield from each mileage block in the mileage scale?

MR. SINCLAIR: No, of course I do not, Mr. Frawley. Of course I do not.

- Q. I am asking if this witness's plan -- maybe
  I do not understand it at all; if I do not, I am sorry -I understand that this witness's plan for a different
  impact in respect of mileages; he goes 9, 10, 8, 7, 6,
  5 on his table here. This, I suggest to you, requires
  you to know meticulously, to figure yield, the number of
  dollars, and to figure attrition and crosion, the rate
  level range to make up those dollars in each of the
  mileage blocks that are reflected by the descending
  percentage increase. I am sure the witness would agree
  that to get the yield this has to be noted.
  - A. My answer to that --
  - Q. Would you agree you would have to get the
  - A. No, Mr. Sinclair, you would not have to.



I could not agree with you.

Q. You tell me why not.

A. Because when you determine the overall increase in your costs and you would have to determine what your costs were to determine what your lack of revenue was, you must have a comparison between those costs which you computed and the former costs, and you must have a statement there. You should very simply be able to work out what the change in percent of those costs are.

- Q. Dr. Little, listen carefully with me, will you please?
  - A. I will try, sir.
- Q. What I am trying to do is to find the yield; what will be the result in dollars of the increase.
  - A. I appreciate that.
- first took, and that is to the determination of how the \$20 million was spread. That is a lot of work, we will agree, and we have done that, and we have discussed that.

  I want to know how I am going to determine the yield and I know that because of relationship of line haul under your plan to terminals that there are varying mileage blocks where the split is going to take place, 200, 500, 700, whatever it may be. To get the yield, I am suggesting to you, the yield in dollars from the increases—

  nothing to do with the costs—
  - A. I know.
- Q. I have to know what I am going to multiply this factor that I have determined by my cost delinearion





## ANGUS. STONEHOUSE & CO. LTD. Little, cr.ex. TORONTO. ONTARIO (Sinclair)

determination, what I am going to multiply that
percentage to. And I am suggesting to you that to know
that and to do it with any degree of tolerable accuracy,
because we are dealing with millions of dollars here, that
I have to be meticulous in determining the revenue from
each of the blocks mileage. This is not the classification
mileage; this is the swing mileage block, where the
percentage is changed. I also have to know not only that
block of revenue meticulously, but I also have to know,
I suggest to you, the range of the rates that are making
up that block of revenue within that group so that I can
properly assess my attrition and erosion and take care of
that by applying the percentage?

A. I understand correctly, and I suggest, again, let us assume for just a moment that we had no changes in the volume of traffic and that you had a demand for an increase in a given number of dollars. Well, I suggest why would you want them; because your costs have increased. Well, how did you arrive at that figure; and it seems to me, Mr. Sinclair, that when you determine what that percentage is and apply it in this way this is nothing but another way of assuring that the percentage you computed, the difference between old costs and new costs, is the dollar. That is the revenue you need. That is the revenue.

Q. I suggest to you, Dr. Little, that you are not making a proper differentiation between costs and rates. If you are applying your plan to a fully and effectively cost-oriented and cost determinant base, you



#### ANGUS, STONEHOUSE & CO. LTD. Little, cr.ex. (Sinclair)

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would be right, but we have proved that you are applying it to a non-cost-oriented determinant base.

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A. That has no bearing on it, Mr. Sinclair.

MR. SINCLAIR: Thank you. Well. Dr. Little.

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I have spent a fair amount of time with you and I do

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The rate, I see. Α.

It is five times larger? Q.

A.

### BY COMMISSIONER GOBEIL:

Q. Dr. Little, my English is not too good; but you will have to be patient with me.

thank you for being patient with my questions.

Thank you, Mr. Chairman.

While Mr. Sinclair was cross-examining you, I was looking at your table 4 and doing a little bit of arithmetic with it. If you will look at it, Dr. Little, and if you would take those figures, maybe what I have in mind is all wrong, but you see for 20 miles it is .62?

- A. Yes.
- And then for 500 miles it is 3.15? Q.
- Α. Yes.
- So the 500 miles is five times larger than Q.
- 20 miles?
  - A. Yes,

Q.

- You mark that. Q.
- A. Twenty-five times larger in distance, you

No. The cost; the rate?

I beg your pardon. That is correct.



#### ANGUS. STONEHOUSE & CO. LTD. Little, cr.ex. (Gobeil)

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A. Yes, this is true. I have to take the

		Q.	If	you	do	the	same	thing	with	500	and	1000
iles	you	have	2 1.	7 t:	lmes	laı	ger?					

A. Yes.

I think I am right. You just mark the figure. Between 500, which is 3.15; and 100, which is 5.35, it is 1.7 times. And from 1000 to 1,500, it is 1.4.

A. Yes.

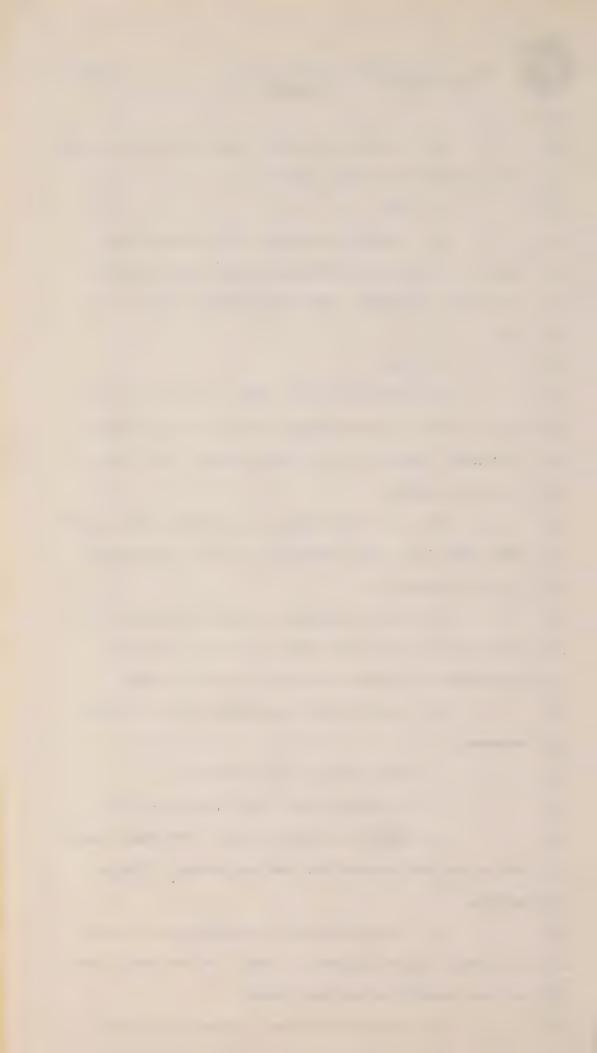
Q. And then you go 1,500, 2,000, it is 1.3, and it is quite a coincidence, but then it goes down by one-tenth. You see, 1.3, 1.2 for 2,000; 2,500; and 1.1 for 2,500, 3,000.

Well, if I understand your formula after 1,200 there would be no more reduction; it will always stay 1.4: isn't that it?

A. You are getting a 5% increase because of the increase in terminal costs. It would increase approximately the same as terminal costs increase.

Q. Yes, but with this there would be no more 

- A. There would be a 5% increase.
- Q. No, but the ratio will always be 1.4?
- A. Yes, I see what you mean. The taper would remain the same because the same percentage is being applied.
- Q. I think you would be working for Ontario or Quebec, not for Alberta. I mean, for the west, they will not benefit of any more taper?





# ANGUS STONEHOUSE & CO. LTD. Little, cr,ex. TORONTO. ONTARIO (Goheil)

taper, and it does turn out that way.

- Q. That would be good for central Canada, but not for the west, money-wise?
- A. Yes, I see your point. The reason for that is -- I mentioned the taper which exists in the class 100 rates at the present time is set up there, that it comes out with this effect with an extreme taper on the end.

When you take a limited amount of the terminal cost and you apply with this very small terminal costs which seems to be less than 10% of total costs, when you get away down on the end figure it looks like no percentage increase at all in the ceiling.

- Q. On this part of your formula, which is line haul costs, there will be no more taper after 1,200?
- A. Yes, I pointed it out in the brief, this is a problem in the taper as it exists. This taper is a responsibility of the Board of Transport Commissioners.

  I felt this was a sacred ground. I would not dabble with this taper. I left this taper to the Board, for they established this taper and if they find reason to believe that their taper was incorrect, as it was established originally, they can go ahead and correct their taper, but the formula still applies.
- Q. Will you correct me if I am wrong. What I mean is this, that your formula from then on, if it was applied, after 1,200 miles it would be a straight 10% increase? Just like at the present time?
  - A. Yes, but --
  - Q. Otherwise it will be like the present



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situation?

- A. You see how much better this is than if it were all 5%. That is the choice we make.
- Q. But your formula will not correct a situation which is not right now?
- A. No, I believe the Board should do that. That really is a separate problem, I feel, Mr. Gobeil.
- Q. If what we have now is not correct, we should correct it by your formula? I mean, when you take this class rate 100, this class rate is not correct because it is horizontal percentage increase we have now. It is no good; and if we apply yours for 2,000 miles instead of 975, and if you stick to 1.4, because after 1,200 miles you never increase, they would not go up from 975 anymore. If you multiplied by 1.4, it will be 1,057, and then we multiply 1,057 by 5, and Alberta will be paying more?

A. Yes.

Q. And if you go to 3,000 miles, and if you correct that, instead of .1,345, I think if you multiply it by 1.4 you will get 2,072.

So, that is all the increase you make it to be based according to your formula, 2,072?

A. There certainly is no doubt that if the rate was correct in 1955 and if rates in Canada increased in accordance with the cost increases in the United States, then certainly the scale of rates which exist permanently in Canada must be incorrect. It could not be other than correct. This is your point, and it is





# ANGUS. STONEHOUSE & CO. LTD. Little, cr.ex. (Gobeil)

true that these inequities which have transpired since this 1955 optimum was established are not going to be corrected by the formula. It will do this: It will prevent more inequities and while you are having a flat 5, an equal 5, that ranges from 12 clear to 1,300 miles, at least you are not having 5% increase all the way along the line.

- Q. Dr. Little, if our Commission was to go by your recommendations, tell me if I am wrong -- something moving from Montreal to Vancouver class 100 instead of paying 1,345 they will pay right away 2,072?
- A. I guess that is right, if you have worked out the mathematics on it.
- Q. And to Alberta instead of paying 1,069, they will pay 1,480.
  - A. Yes, I guess that sounds right.
- Q. You also said to Mr. McDonald -- I have a note Mr. McDonald told you that what you were really suggesting was increases varying from 10 to 5%. Is it not a fact you really have only three increases -- that 9 and 10% you talk about does not mean much?
  - A. I do not quite understand you.
  - Q. On table 4 --
  - A. Yes, sir.
  - Q. 10 and 9% goes only for 40 miles?
  - A. That is correct.
  - Q. There is not much traffic?
  - A. There is not much traffic.
  - Q. So really your solution is 5 to 7%?





# ANGUS. STONEHOUSE & CO. LTD. Little, cr.ex. (Gobeil)

A. It is true that in accordance with the scale there is so much taper during that low range that

Q. So it will not change too much?

A. Yes, that is correct.

COMMISSIONER GOBEIL: I think that is all I have, thank you.

### BY COMMISSIONER MANN:

Q. Some very short questions, Dr. Little.

There have been many criticisms made of horizontal

percentage increases. Let me take one of them, first,

and that is a flat or horizontal percentage increase does

not take into account the ability of a commodity to stand

an increase; and what I would like to ask you is does your

formula do that?





or no more consideration than the flat percentage method; both are not very good on this. I answered that before by saying that if we do find a situation such as this might arise you will then change the classification.

A. I would have to say no. It takes little

- Q. Yes, another criticism, of course, and this I suppose if there was no order of magnitude around would be two criticisms. The first one is that it is harder on the long haul shipper than the short haul shipper and your formula purports to remedy that to some extent.
- A. To the extent that the long haul costs have been increased as well as the short haul and naturally to that extent if the situation would reverse itself it would not.
- Q. Periodically through your submission, Dr.

  Little, you do say that this would be relief to the

  short haul shipper. I cannot lay my finger on the

  passage.
  - A. Relief to the short haul shipper. .
  - . Q. Yes.
- A. Not.according to the assumed percentages of increase. It would add, as a matter of fact in the examples used relief to the long distance shipper because his rates would not be increased as much as the rates increased percentage-wise for the short distance shipper.
- Q. I had it marked somewhere -- yes,
  inferrentially I suppose it appears in this passage on
  page 24 where you are talking of the flat percentage



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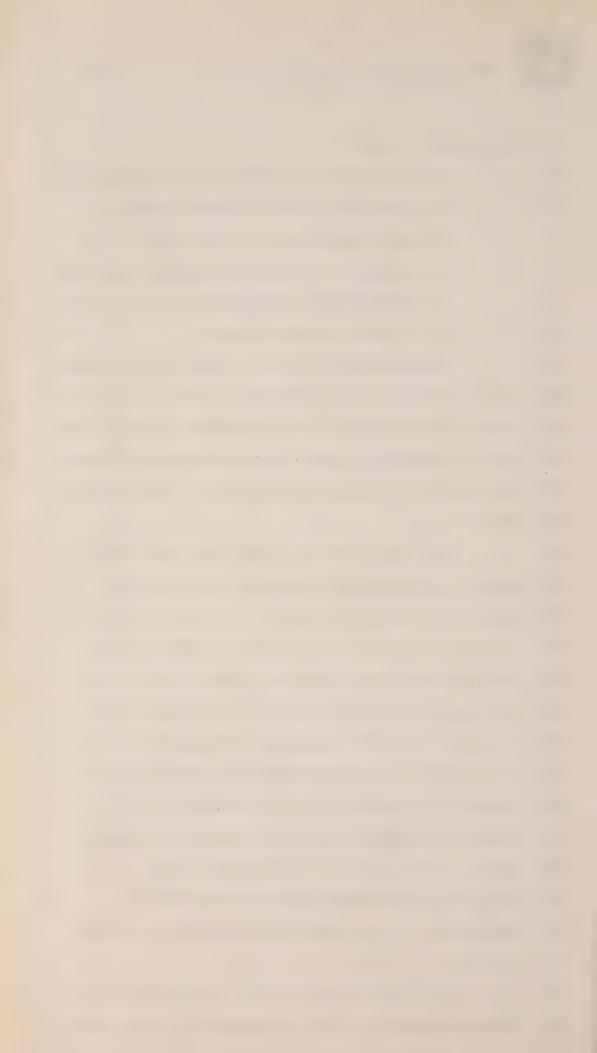
increase and you say:

"The cumulative ill effect on long distance shippers and in favour of short distance shippers could result in considerable long run damage to the Canadian national production and distribution system through the application of horizontal rate increases."

Inferrentially, certainly there is the thought expressed that the flat percentage increase is detrimental to the long haul shipper, your alternative proposal which is meant to ameliorate the flat rate percentage increase and therefore. I suppose be of benefit to the long haul shipper?

A. Yes, and may I add at this time that it seems to me uniquely and peculiarly true that this business of transportation which is a place utility on a movement from place to place and as times moves on and improvements are made we are finding here in fact the situation in which we are not giving advantage to the improvements that are made. The principle function of improvement in transportation is to encourage long distant shipments in essence to a certain extent to provide for movements over great distance and this does not come about under a flat percentage method. It is destroying the very thing that innovations and improvements in the transportation system are supposed to create.

Q. Given certain revenue requirements if any scheme alternative to a flat percentage increase resulted



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in the imposition of higher rates on short haul or minimum lengths shipments, would it in your opinion increase the range or the competitive area of railway movements.

- A. By "area" do you mean the mileage distance?
- Q. No, the types of traffic that would become subject to competition.

A. There are so many complex things that will I might try to bring it down that certainly where the rail carriers are getting into trouble on a long distance haul this would give relief to that situation. This would give them an opportunity to retain long distance transportation which they are losing. This seems to be the very area of natural glory, so to speak, and they are losing it. They would retain it and it would give them a chance to hold it. When we get into the short distance movement there is no doubt that it would put the finger upon whether or not the rate which would come out of the formula can be in fact applied and the answer to this is if it cannot be applied and it seems desirable to the railroads and to the government that this movement should change, this does not mean our formula we are working on -- what we hope we are going to do is handle it separately.

COMMISSIONER MANN: I think those are all the questions I have, thank you.

COMMISSIONER GOBEIL: I would like to ask just one more question. Mr. Mann put this very technically and I did not know the word when he said "flat increase".



### ANGUS. STONEHOUSE & CO. LTD. Little, (Mann)

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5%?

To make it clear, what you suggest is that if the line haul costs will simply be a flat increase above 1,200 miles, is it not because it will always be 5%?

THE WITNESS: It will not always be this way.

The 5% just happens to work out that way with the present scale.

COMMISSIONER GOBEIL: No, but it will not change, it will not be 4%?

THE WITNESS: No.

COMMISSIONER GOBEIL: It will always remain

THE WITNESS: It will never be less than the lesser of the two increases of cost of terminal or line haul, it can never be less.

#### RE-EXAMINATION BY MR. FRAWLEY:

Q. Dr. Little, did I understand you correctly when I thought you told Commissioner Gobeil that the problems that you saw had their root in the scale that was prescribed by the Board of Transport Commissioners and which became effective on the 1st of March, 1955.

A. Yes.

Q. All I want to say to the Board and Commissioner Gobeil is that that was a proceeding that lasted for, I think, two years and if you will read the very interesting Judgment of the Board, a fifty page Judgment, you will find on page 50, that the Board had four scales presented to them. These scales are all listed on page 50 in this report. The Board had the





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C.N.R. scale proposed, the proposed Canadian Pacific railway scale, the proposal of the Alberta scale and the Board's own interim scale. They had those four scales and they came out finally with a scale which appears as appendix "B" which was the scale which was put into effect. This was a compromise scale, there is no doubt about that. Our own Alberta scale was a compromise between the railway scales. The Board at page 31 recites Professor Williams that we heard here who was brought up by the province of Alberta to give evidence and he reviewed all of the scales for the Board and his review, his comment is all set out thoroughly by the Board. The Commissioner who gave the Judgment is well known, Mr. Knowles and he states it all. I say it was a compromise and certainly it is not perfect. But, of course, it has flat and steep spots. However, it was the scale that the Board developed at that time and Mr. Little has made a very interesting comment that that accounts a great deal, probably wholly for the problems that he saw confronting you. Mr. Little did nothing any more than take the scale as he found it. I have no further questions.

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THE CHAIRMAN: Thank you.

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THE WITNESS: Thank you, gentlemen.

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THE CHAIRMAN: Monday morning we will have

MR. SINCLAIR: Yes, Mr. Roberts, Mr. Edsforth

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the C.P.R.

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and then Mr. Emerson and I will arrange to have all the witnesses here so as one finishes the other one can step





## ANGUS, STONEHOUSE & CO. LTD. TORONTO, ONTARIO

--- Adjournment ---

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into the box.



# ROYAL COMMISSION

ON

## TRANSPORTATION

HEARINGS

HSLDOAT

OTTAWA

VOLUME No.:

24 Oct 1960

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1			ERRATA Volume 106
2	Page	Line	
3			
4	17678	12	"it is a value of service" should be "it is value of service".
5	17678	13	"competition" should be "competitive"
6		14	"Increased basis of cost" should be "Increase based on cost".
8	17681	26	"Composition" should be "competition".
9	17696	20	"Meet" should be "move".
10	17698	24	*substitute" should be "subsequent".
	17702	3	"You say" should be "Let us say".
11	17719	18	Delete "not".
13	17728	22	"comparative" should be "competitive".
14	17737	25	"want" should be "watch".
15		28	"and" should be "all".
16	17753	7	"on truck" should be "off track".
17	17760	22	Should read "the sulphur. But the coal"
	17771	26	Delete "competitive rates".
18	17786	25	Delete "selected".
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ROBERTS, J.M.

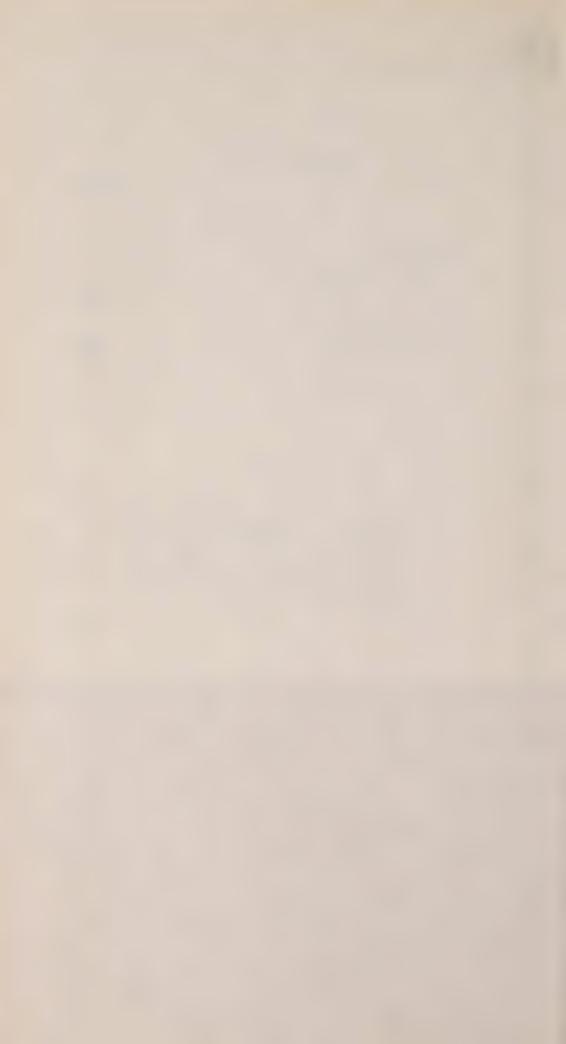
Direct examination By Mr. Sinclair

Mr. Sinclair 17604

Cross-examination
By Mr. Cooper
By Mr. Brazier

EXHIBITS

C.P.R.: Carload traffic via C.P.R.
Comparison of revenue as result of
17% freight increase - taken from
waybills reported for Board's 1%
study - December, 1958 to November,
1959 (Excluding traffic at United
States related rates.)



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#### ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held in the Court Room, Board of Transport Commissioners Offices, Ottawa, Ontario, on the 24th day of October, 1960.

#### COMMISSION

Mr. H.

Mr. M. A. MacPherson, Q.C.

Anscomb Member

Mr. A. H. Balch

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Mr. H. A. Mann

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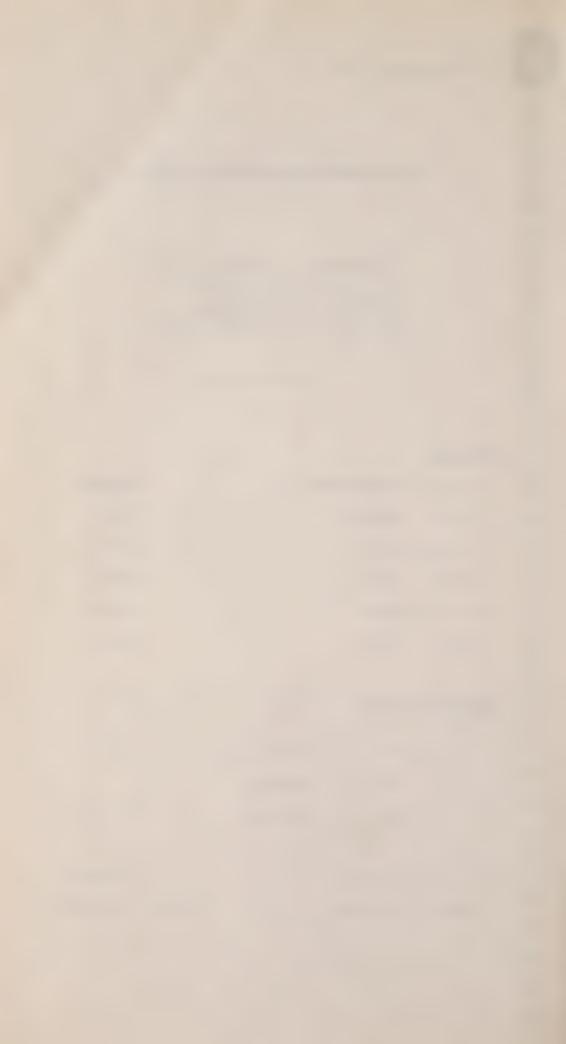
Adviser

Mr. F. W. Anderson

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Secretary

Assistant Secretary



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Ottawa, Ontario, Monday, October 24, 1960.

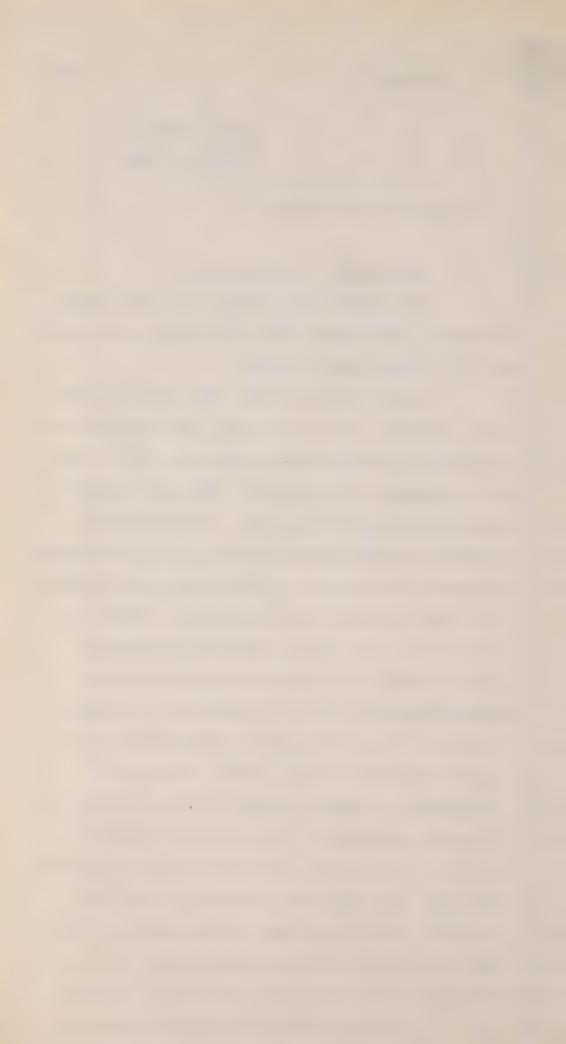
--- On commencing at 10.00 a.m.

THE CHAIRMAN: Order, please.

MR. SINCLAIR: Mr. Chairman and Commissioners, as arranged, the witness is Mr. J.M. Roberts, and I would ask him to please take the stand.

As the Commission knows, Mr. Roberts appeared before in January last for some days. His qualifications setting out his background and experience will be found in the transcript for January 20, 1960, under volume 23, and being pages 3257 through 3259. In June last, the Commission directed Canadian Pacific to file on or before September 15, the precis of evidence that would be heard at its fall sittings of this Commission. Pursuant to that direction, Mr. Roberts' precis was prepared and filed and handed to my friendson September 14, last. When the Commission issued its directive as to dates in June last, it made certain other directives as to the filing of material by other parties. Because of circumstances in certain instances this material was not forthcoming until later. As a result, Mr. Roberts has dealt in his precis with the British Columbia submission, and he also has covered the outline of the Manitoba submission, but the detail and further expansion of that submission and the changes that were brought about by that expansion were not a part of Mr. Roberts' precis.

I was faced with the decision as to whether,



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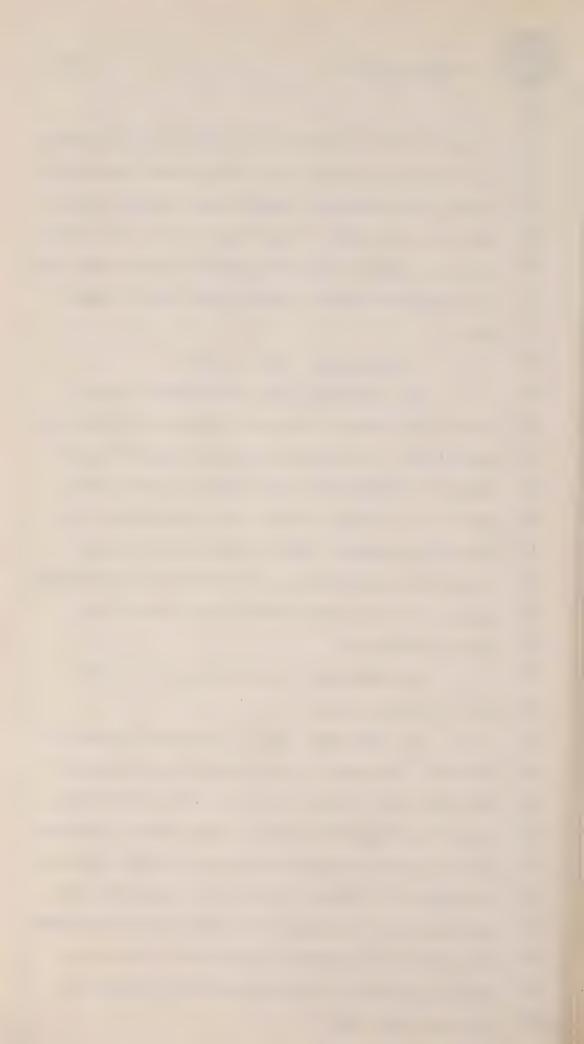
in light of these circumstances, I would ask Mr. Roberts to continue and to handle the various other submissions, including the Maritimes, Saskatchewan, Alberta, and the expansion of Manitoba. I made the decision, sir, that I would call another witness and that Mr. Roberts would not deal with these matters in detail or in their overall impact.

THE CHAIRMAN: That is what?

MR. SINCLAIR: Well, the various evidence called by Mr. Frawley, the parity problem as advanced by the Maritimes, the western Maritimes freight rates act proposal of Saskatchewan, the expansion of the 50-50 split -- or, I should not call it a 50-50 split; it is the split of Manitoba, that is the horizontal flat increases per hundredweight, and interline Lake Junction points, and various other matters dealt with in the Manitoba submission.

THE CHAIRMAN: All of which will be dealt with by another witness?

MR. SINCLAIR: Yes, ty the next witness, Mr. Edsforth. The reason I bring this to the attention of the Commission is this, that while I am not in any way suggesting to my friends that if they have any questions in these areas they should not be put to him -- that is, of course, up to them -- Mr. Roberts, in so far as his experience and knowledge of the detail of these proposals will enable him to answer, he will do so. But I have asked Mr. Edsforth to be responsible for the analysis of those submissions.





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MR. BRAZIER: Mr. Chairman, before my friend continues, I do suggest that the evidence in chief of Mr. Edsforth be placed on the record at the earliest possible date in order that we will have time to consider in

This, as Mr. Sinclair has outlined, Mr.

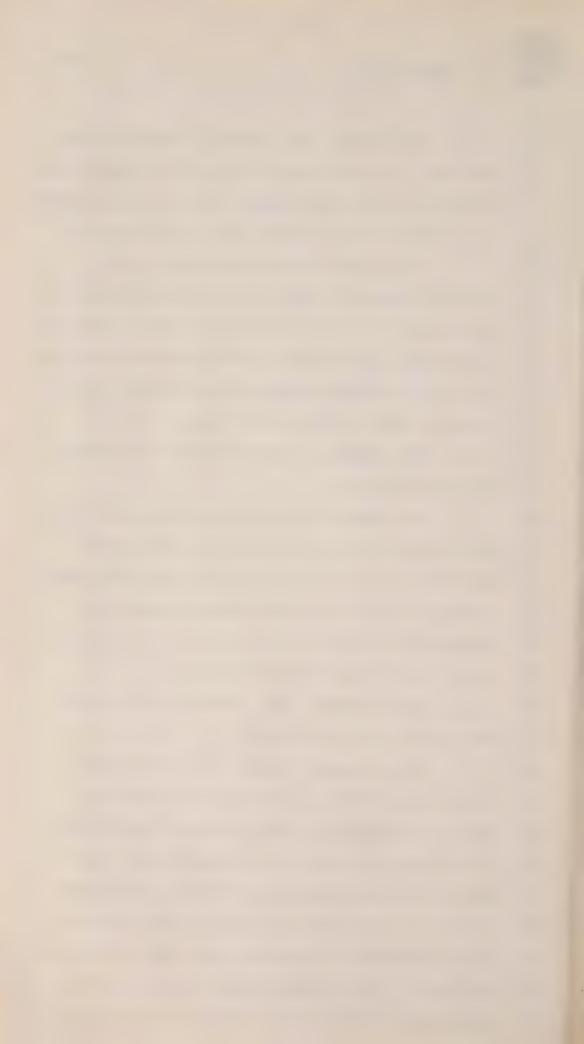
Edsforth is going to cover a very considerable amount of the submissions made by the provinces. While we have had Mr. Sinclair's other priefs for some weeks now, and have been able to consider and study them, what Mr. Edsforth is going to say is going to be all new.

THE CHAIRMAN: I understand that Mr. Roberts will deal with yours.

MR. BRAZIER: Yes, but also some of the other subjects in which I may be interested, and I would suggest to my learned friend that he have Mr. Edsforth's evidence in chief put on the record at the earliest possible date so that we will have ample opportunity of considering it before cross-examination.

THE CHAIRMAN: Well, we must get through and cross-examine Mr. Roberts first.

MR. SINCLAIR: As soon as Mr. Roberts has completed his evidence, I have spoken to some of my friends, and I recognize the situation. I have spoken to my friend, Mr. Cooper, and the suggestion we would make to the Commission is this, that when Mr. Roberts' evidence in chief, which is already filed, plus the cross—examination is completed, I will call Mr. Edsforth and put it on the record by asking his comments in certain areas. When that was completed, he would stand





down. Then, we would have Mr. Emerson's, and Mr. Emerson could then have his cross-examination completed. And, at that time, Mr. Edsforth would come back. That should give my friends a number of days. Is that satisfactory?

THE CHAIRMAN: That should be satisfactory.

MR. BRAZIER: My colleagues are probably more affected than I am.

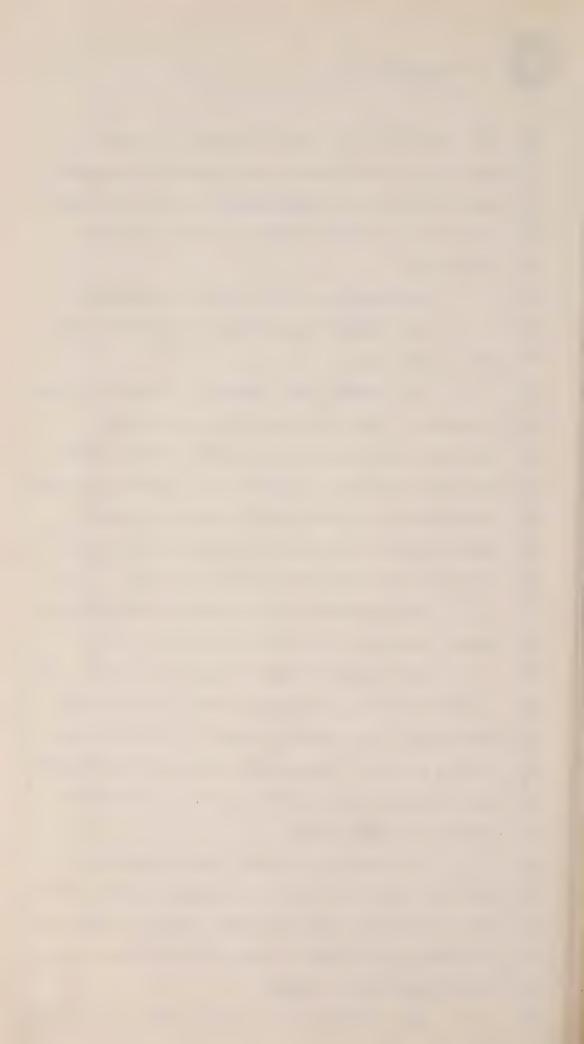
MR. FRAWLEY: Mr. Chairman, I support my friend, Mr. Brazier. I may have misunderstood on Friday. I thought Mr. Sinclair would put Mr. Edsforth's in and we would have two pieces of evidence: Mr. Roberts' in chief, represented by his brief, and Mr. Edsforth's whose evidence was not committed to a brief, and then we would proceed to cross-examination from that point.

THE CHAIRMAN: The proposal he offers, that Mr. Emerson intervene, would settle the matter.

MR. SINCLAIR: What I suggested was this: that Mr. Roberts' would be completed, then I would call Mr. Edsforth, put his evidence in chief in, stand him down, and then put in Mr. Emerson, and then recall Mr. Edsforth for cross-examination, on the completion of the cross-examination of Mr. Emerson.

MR. FRAWLEY: One more thing, please, Mr.
Chairman. I was not here from the reginning this morning,
unfortunately. Do I understand Mr. Sincialr to say that
Mr. Roberts is now going to deal with some matters which
are not covered by his brief?

MR. SINCLAIR: No. I merely said -- I was not,





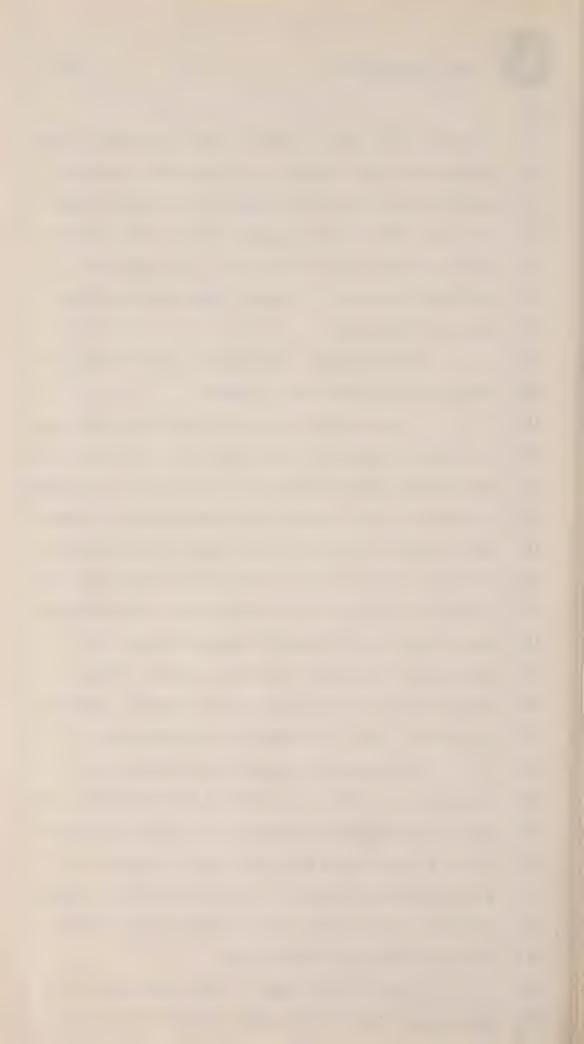
in view of my remarks, trying to limit my friends: crossexamination of Mr. Roberts. If they want to ask him
questions concerning any of these items, they are free
to do so. All I was saying was that as to the detail of
any of the analysis that was made, I have asked Mr.
Edsforth to do that. I was just informing you of the
decision I had made.

THE CHAIRMAN: For instance, Mr. Edsforth will analyse Dr. Williams and Mr. Roberts

MR. SINCLAIR: I wish to add this, first, that in certain respects; in other respects, on account of the time element involved, that this, of course, a disability, possibly, to my friends, but I cannot help it, because some of this evidence was only completed on Friday, as you know, and that the only way some of these areas can be dealt with will be in my submissions to the Commission when I would analyse them in argument and put the submissions of Canadian Pacific in regard to them. On account of the time element, it is necessary. Therefore, my friends — well, they cannot cross—examine me.

MR. FRAWLEY: Now that the Chairman has mentioned the matter, I am grateful to the Chairman. If Mr. Edsforth is going to analyse critically the evidence of Dr. Williams, then that is a matter of concern to both Mr. Mauro and myself. If he is going to analyse critically the evidence of Dr. Roberts and Dr. Little, that is a matter of concern to me.

Now, the last thing I would want would be to add any more fuel to the flames in this Commission and



to cause any more 'urmoil. I may as well put myself on record that I do not propose; I cannot cross-examine Mr. Edsforth on his analysis of Dr. Roberts and Dr. Little.

THE CHAIRMAN: We will cross that bridge when we come to it.

MR. SINCLAIR: I am sure the manner in which Mr. Edsforth analysed it will be so clear it cannot result in any problem.

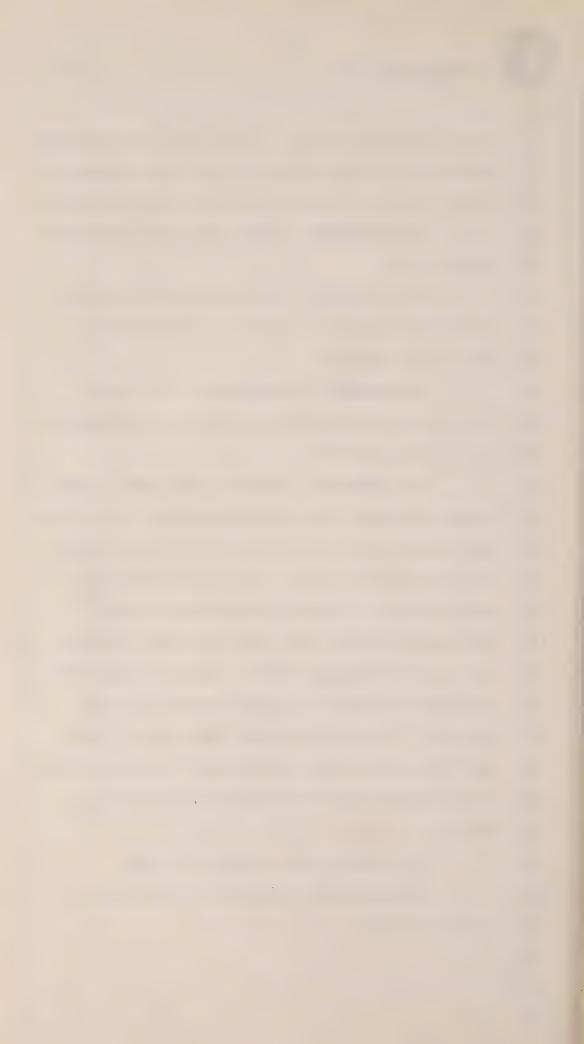
MR. FRAWLEY: It may result in no crossexamination by me, but that is something we may have to put up with, that's all.

MR. SINCLAIR: Attached to the precis of Mr.

Roberts' testimony was a numbered statement, 310. I have had a request for certain publiculars in regard to this from my friend, Mr. Smith. This is, of course, in preparation and I informed him this morning that unfortunately had not been completed, but we would essue soon as we could comply with his request. I must say he very kindly restricted its scope to try to make it reasonable to handle, but it has taken quite a bit of work. We have had men on it for some days, and my friend is not objecting to it not being here this morning, I take it?

MR. SMITH: That is quite all right.

THE CHAIRMAN: I am sure you will find him quite cooperative.





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#### J.M. ROBERTS, called

### DIRECT EXAMINATION BY MR. SINCLAIR:

Q. In checking statement 310, Mr. Roberts discovered that an error had been made in the compilation that does not materially affect it, but it does require a revision to be made. I would show you a document, Mr. Roberts, entitled, and you will note that this entitlement is somewhat different from the one on the brief which shows where the error crept in:

"Canadian Pacific Railway.

Carload traffic via Canadian Pacific Railwaycomparison of revenue as result of 17% freight
increase-Taken from waybills reported for
Board's 1% study-December, 1958, to November,
1959, Inclusive - (Excluding traffic at United
States related rates)."

Now, I would ask to have that, with the permission of the Commission, filed as an exhibit.

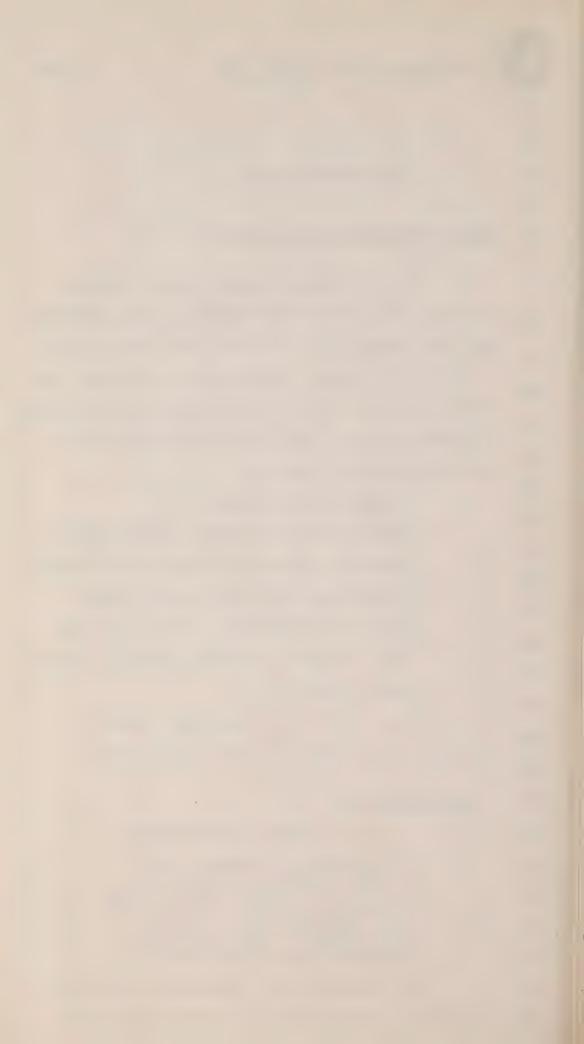
#### --- EXHIBIT NO. 162

#### Canadian Pacific Railway

Carload Traffic Via Canadian Pacific Railway - Comparison of revenue as result of 17% freight increase - Taken from waybills reported for Board's 1% study - December, 1958 to November, 1959, inclusive - (Excluding traffic at United States related rates).

MR. SINCLAIR: Q. Looking at exhibit 162,

Mr. Roberts, what was the reason for the change that



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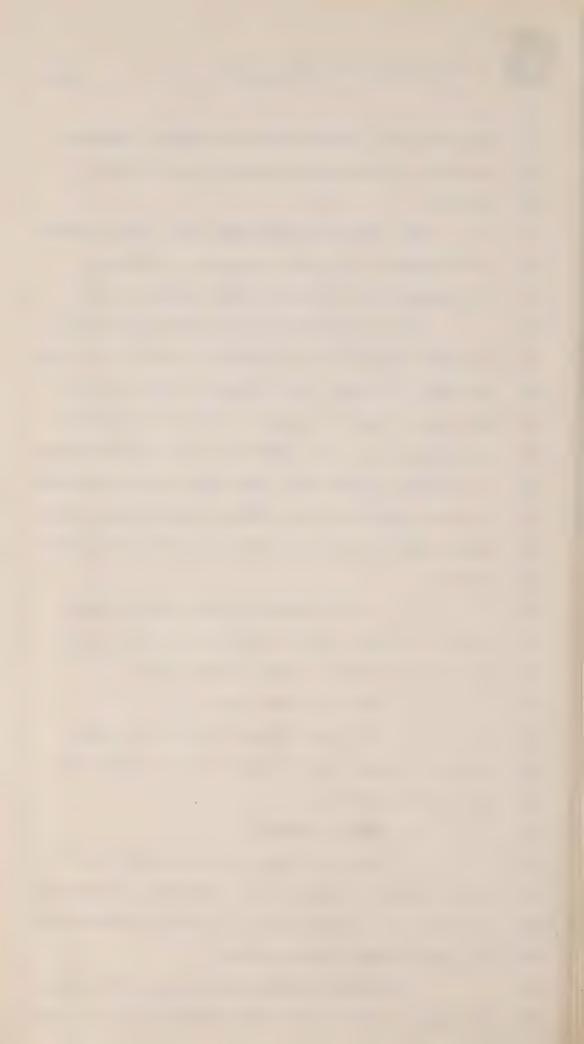
resulted in the revision from the statement comparable to exhibit 162 which was attached to your precis of evidence?

A. The key to the change, Mr. Sinclair, lies in the addition of the words which are in brackets, "excluding traffic at United States related rates".

Now, I found this later in checking over the statement myself, various movements included in it, and concluded, of course, that it was not fair to include that type of traffic because it had not received the 17% increase. So that, therefore, the revised statement is exclusive of any traffic which moves at related rates to those within the United States, even movement within Canada, such as lumber from British Columbia to eastern Canada.

- Q. So this revision arises from excluding from the analysis traffic moving wholly within Canada but at rates related to United States rates?
  - A. That is correct, sir.
- Q. This would include fruit from British
  Columbia; lumber; and in certain of its movements some
  port related traffic?
  - A. That is correct.
- Q. Now, Mr. Roberts, you have before you a precis entitled "Canadian Pacific Railway memorandum in respect of, 1, Rate changes in general revenue cases; II, Other Freight Traffic Matters".

In relation to this precis, Mr. Roberts, and the exhibit 162, has this been prepared by you or under



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your direction, and have you checked it?

- A. I have, sir. It was, and I have, sir.
- Q. Are the facts therein set out correct to the best of your knowledge and belief?
  - A. They are.

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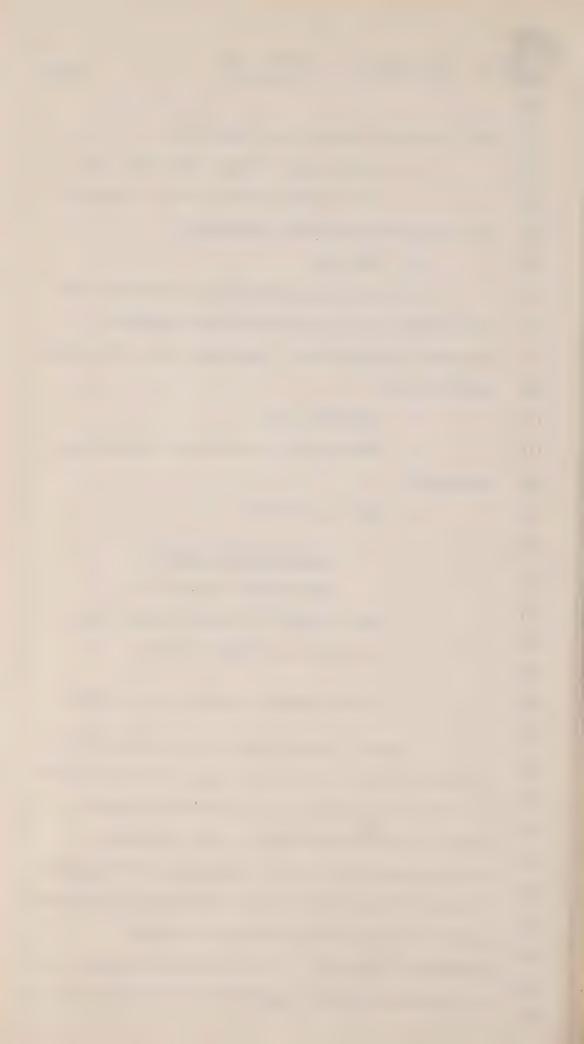
- Q. Are the opinions therein expressed your opinions based on your knowledge and experience. including your practical experience as a rate-man of some 25 years?
  - A. They are, sir.
- Q. Dealing with the Canadian freight rate structure?
  - A. That is correct.

#### Canadian Pacific Railway

Memorandum in Respect of:

- Rate Changes in General Revenue Cases I
- Other Freight Traffic Matters II
  - 1 Rate Changes in General Revenue Cases

General revenue cases, tied as they are with a reasonable level of net rail income, are based on the fact that financially sound railways are essential to Canada. As Mr. Crump stated to this Commission, notwithstanding the growth in other media of transport, railways still provide the most efficient and economical method of moving general freight by land over substantial distances. It has long been recognized that only when railways are financially sound arethey able to



furnish efficient service and adequate facilities for the handling of traffic and to meet the necessities of the commerce of the country.

The Board of Transport Commissioners fix from time to time the level of net rail earnings for Canadian Pacific. The Board has used Canadian Pacific as the yardstick in general revenue cases but has also taken into account Canadian National Railways.

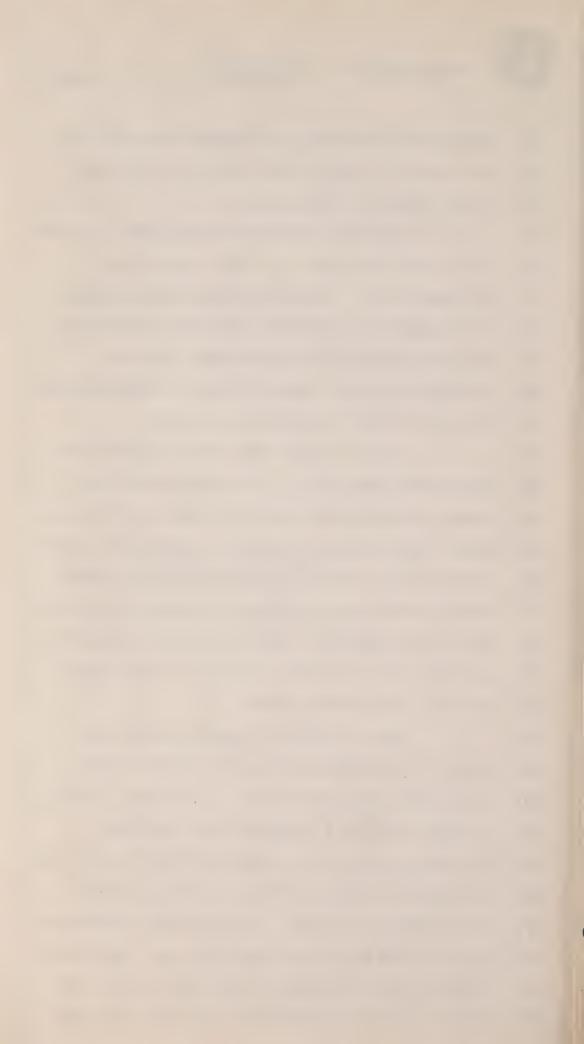
Canadian Pacific and Canadian National together provide about 90% of rail transportation in Canada.

General revenue cases have been heard from time to time since 1918. In the 1920's there were general reductions, but since World War II, all general revenue cases involved increases. Historically, general revenue cases authorized percentage changes in rates. There have been some exceptions but these have been few. There is one exception that has always been made, that is, the rates on coal and coke which have been dealt with on a cents-per-ton basis.

Senior officers of Canadian Pacific have stated to the Commission that the railway is both labour heavy and capital heavy. It maintains its own roadbed as well as its equipment and facilities.

Accordingly, increases in wages and material prices have a tremendous effect on railway net earnings at any given general rate level. In the same way increases in cost of money and income taxes have a most significant reaction upon the adequacy of the general rate level.

General revenue cases therefore, arise when there has



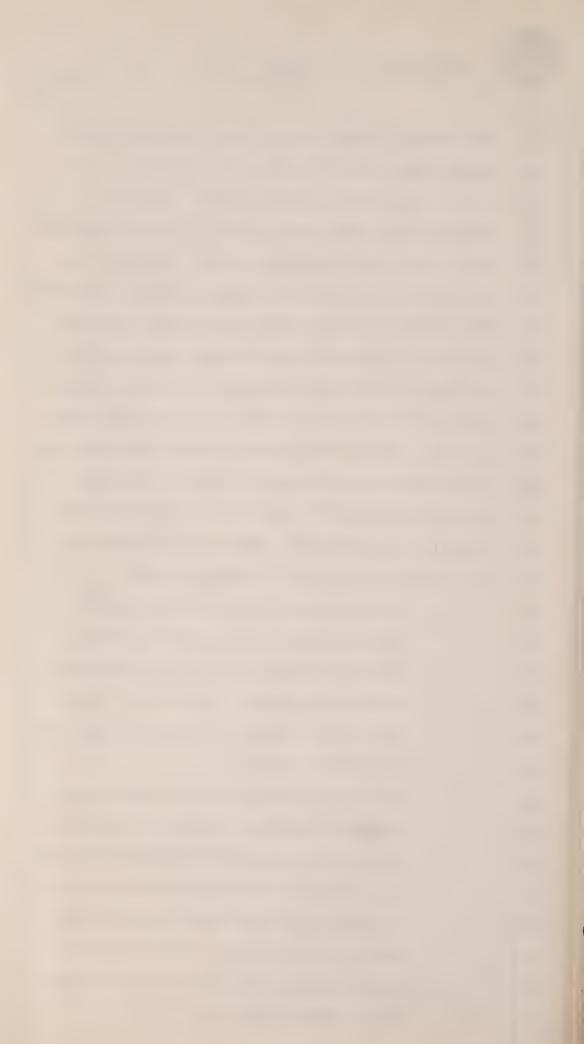
been a marked change in wage levels, material prices, income taxes or cost of money.

In all the post-war general increases, increased wage rates were a factor. In the 9% increase of 1952, and the 17% increase of 1953, they were the only factor. The impact of a wage increase is immediate and in addition, many of the wage increases involved substantial retroactive features and fringe benefits. This means general rate adjustments to meet increased costs must be dealt with in the most expeditious manner possible. In the early post-war cases, there were long delays before relief was granted and this was the subject of complaint by the railway companies to the Turgeon Royal Commission. This complaint resulted in the following conclusion by that Commission:-

"It is necessary in the public interest that the Board should proceed with the utmost possible expedition when dealing with general revenue applications, whether made by the railways for increases or by the shippers for reductions in rates.

These applications are always made having regard to conditions existing at the time. If their determination is allowed to drag over a long period of months or even years, there is a probability of irreparable injury being done to those concerned. In the long run nobody benefits from such a state of affairs."

(Turgeon Report, fage 71)



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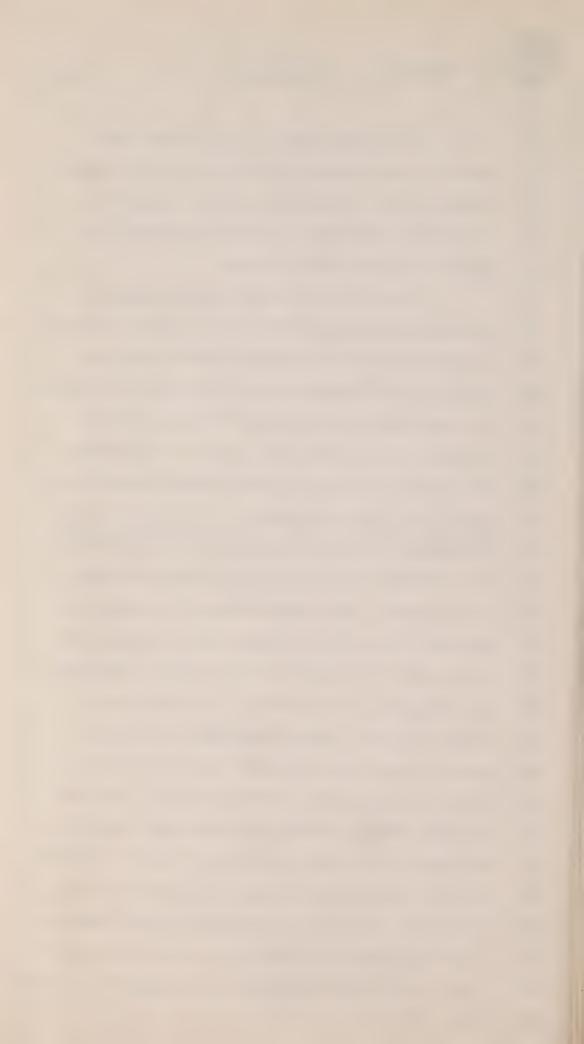
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In the years after 1950, the Board gave weight to this conclusion and the expeditious handling of cases was also assisted by the development of improved procedures and the greater knowledge of all parties as to the issues involved.

In all of the post-war revenue cases, the horizontal percentage method has been applied. It must be remembered that in a general revenue case, the application of the railways is for authority to increase all rates equitably insofar as the law and traffic conditions permit. The basic freight rate structure upon which the increase is to be applied is one that is deemed to be just and reasonable. This is so because "individual shippers raise for consideration the level of individual rates which they believe to be unfair or which present problems in reaching marke's or moving traffic freely. The representations of shippers are thoroughly reviewed by railway traffic officers, and where, after investigation and discussion, adjustments are necessary, these are made. If, in the view of traffic officers, shipper representations do not warrant adjustments being made, then the shipper is free to take the matter up with the Board. This may be done either by informal discussion with members of the Board or its traffic officers, or may be initiated by the filing of a formal complaint which the railway must answer. If the Board believes that the complaint makes out a case sufficient for a hearing, this takes place and both sides are given full opportunity to present their position.



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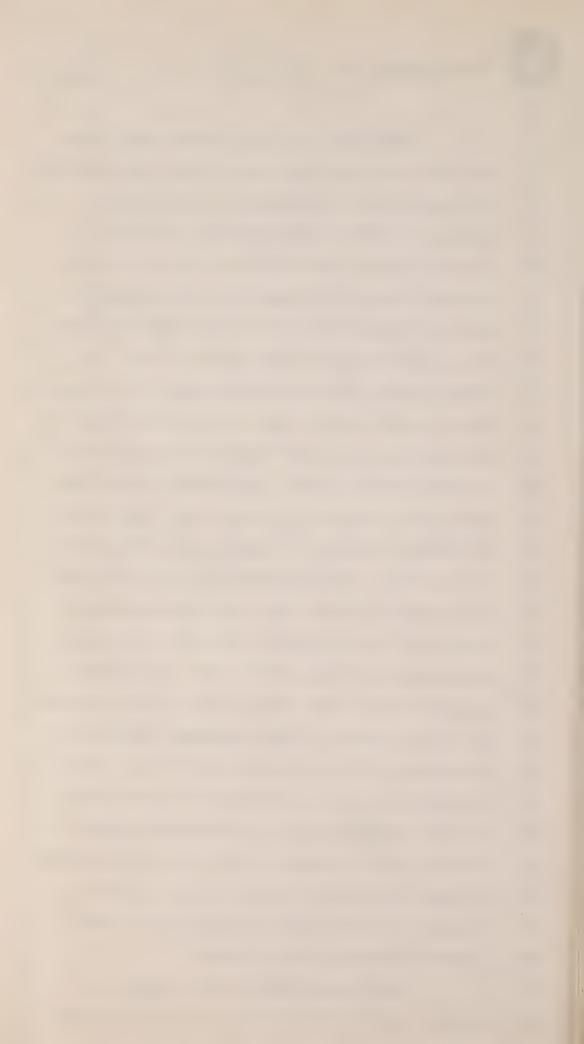
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Undoubtedly, increased freight rates are an additional cost which must be met in selling prices, or in reduced profits to producers or manufacturers. However, it should be emphasized that they are mo different than any other increase in cost such as an increase in wages or in materials, or an increase in any other element of the cost of production and sales, It also must be realized that increased costs, or whatever nature, can change market ratterns. A shipper who at a given level of wages in a factory was able to reach out and compete with higher cost manufacturers located closer to a market, can be driven out of that market by an increase in his wage costs. Nevertheless, this happens. Equally, it happens when transportation costs increase. Ir view of representations that are made regarding freight rates, one sometimes wonders if the only cost that affects the ability of goods to reach markets is transportation costs. It must be recognized that freight rates, to be just and reasonable, should not be used to offset geographic advantages or disadvantages of any given producer or area. Nothing is clearer than that the jurisdiction of the Board of Transport Commissioners is not that of an economic planning board. Chviously, if it was to be an economic planning board, it would not only have to control transportation costs, but all other costs that are elements in the sale price of goods.

The Canadian freight rate structure is

complex. This is not surprising in view of the fact



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make such statements are obviously not acquainted with it, and do not properly understand the principles on which it is based.

that it meets numerous complex situations which arise frommoving shousends of different articles covering a wide range of transportation thand teristics and value between thousands of points. It is possible. theoretically, to evolve a simple freight rate structure; for example, that all goods, regardless of their transportation characteristics or value, would move at the same rate per mile. If it does not cost any more to move a car of refrigerators than it does a car of sand, why have a classification and various kinds of rates? Why have competitive rates? Why have class rates, commmodity rates, or special arrangements tariffs?

A freight rate structure which would charge all goods at the same rate per mile, irrespective of their transportation characteristics or value, would have only one thing to commend it and that is that it would be simple; but at the same time, it would be completely unworkable and would adversely affect commerce and make business in this country impossible.

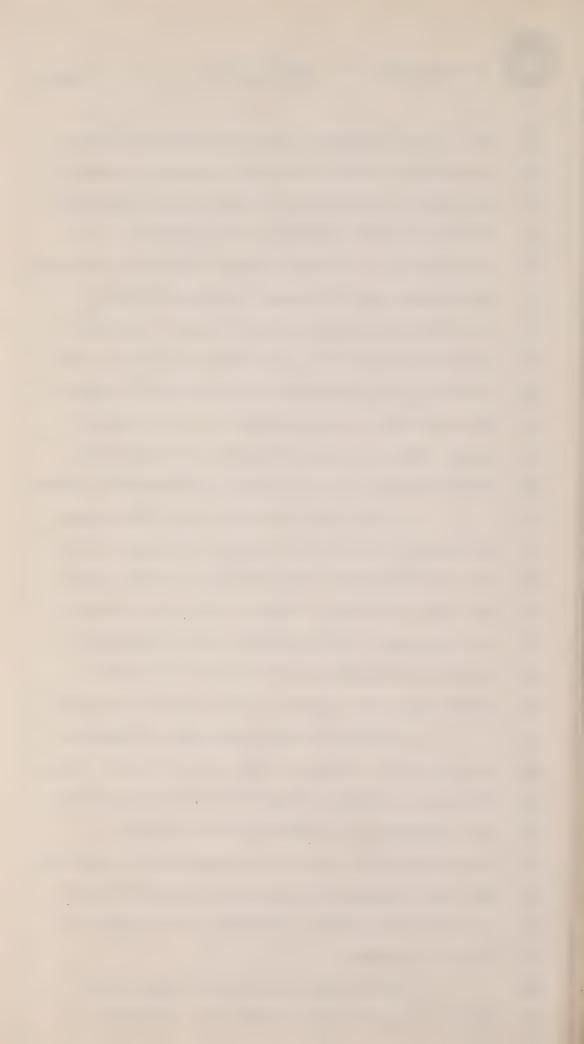
The test of its realism is that it moves traffic freely.

The existing Canadian freight rate structure has been

much maligned. It has been termed a hopeless, complicated muddle which no one understands. Those who Freight rates in Canada are based on two

A freight rate structure must be realistic.

30 underlying principles: variable cost of service





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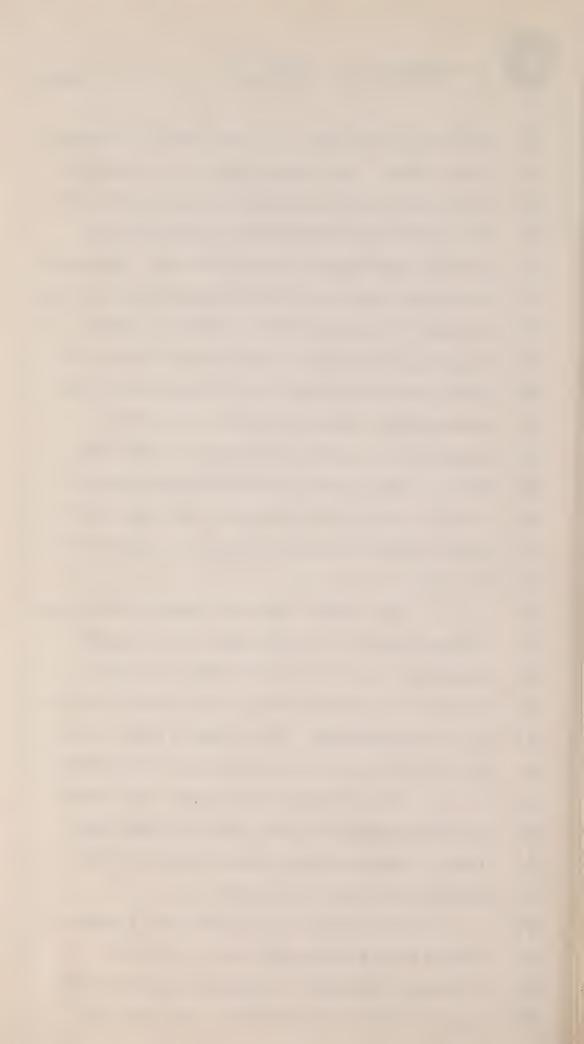
factors which determine the level of rates for different commodities, for different lengths of haul 30 and for different circumstances. The underlying

performed by the railway, and the value of the service to the shipper. The variable cost is, of course, the floor below which any rate must not be made, but the value of service to the shipper can and does vary greatly, depending on a number of factors. These have already been explained to the Commission and it is only necessary to state here that as there is a great variation in the value of goods carried, so also is there a variation in the ability of such goods to pay transportation charges and in the value of the transportation service to the shipper of the goods. Thus, all goods cannot pay the same proportion over variable cost, as total transportation charges can affect the extent to which it would be economical to move them.

The distance over which goods are carried has a direct bearing on the rate which can and must be charged for the service. The length of the haul obviously has a direct effect on the variable cost of the service performed. It also has an effect on the ability of most goods to pay transportation charges.

Other factors which influence rate levels include the extent to which competition from other forms of transportation or market competition from outside the country are prevalent.

Thus, it will be seen there are a number of





principle has always been to develop a structure of rates which will permit the greatest volume of goods to move freely and maximize railway net revenue.

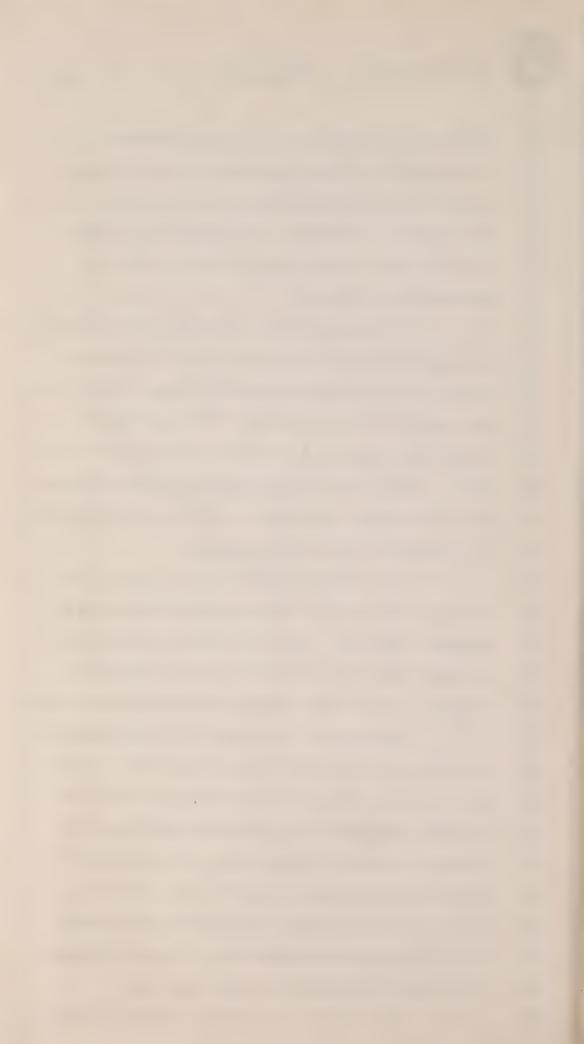
Adjustments in the freight rate structure at made to carry out this principle and in this way meet the necessities of shippers.

The impression that the freight rate structure is a rigid structure which moves only at the time of general revenue cases is completely wrong. In the first six months of 1960, for example, there were 2,917 tariff item changes and one tariff item changes and one tariff item changes and one tariff item can over many rates. These items involve in cases in rates, changes in minimum weights decreases in rates and introduction of competitive rates or agreed charges.

Some of these changes were initiated by the railway; others resulted from r presentations made by shippers. Some were forced by one litton from other transport media, and some were to enable Canadian shippers to media import competi ion from other countries.

Undoubtedly, the railways have some dissatisfied customers, the customers sho have not been able to make out a case with the railways or before the Board for what they want sometimes become very vocal, but I am sure the commission realizes that of the thousands of shippers that are served every day by the railways, by far the large majority are satisfied even shough they might wish that transportation rosts were force, just as they might wish the toxes were lower.

The method to be applied in general revenue



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cases must meet the following tests:

- (a) It must create the least possible disturbance to the basic rate structure.
- (b) It must be practical.

It must not involve individual rate analyses or detailed cost investigations. It has to be capable of being implemented by simple tariff action. It must be capable of being determined expeditiously.

(c) It must be fair to shippers and railways alike.

For shippers, it must not be an attempt to offset economic or geographic advartages or disadvantages. It must not favour a shipper of one commodity over the shipper of a competing product. It must recognize the forces of competition. For the railways, it must produce revenues sufficient to keep them financially sound and must do so promptly. It must not attempt to maintain rate differences unrelated to competitive rate relationships. Fundamental to the freight rate structure is the fact that rate differences exist and these are caused by a number of factors as I have indicated earlier. Because so many people have said that a general revenue increase should not disturb differences in rates, I think I should emphasize that in meeting increased costs, the railways are no different than a department store. In a department store, various commodities are sold at various amounts over cost. If the wage costs in the department store go up necessitating increase in prices it is, of course

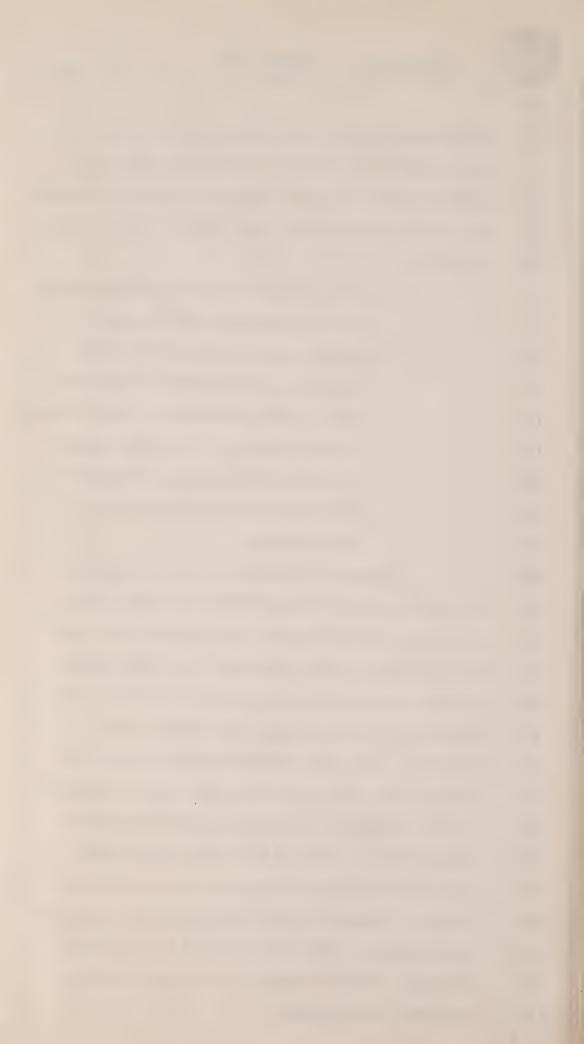


obvious that the commodity that is being sold at a mark-up of 100%, can take, in absolute terms, more of a price increase than the commodity of equal cost which previous to the increase, could only be sold at a mark-up of 50%.

(d) While changes in cost of transportation

(d) While changes in cost of transportation are the basic reason for a general revenue case, the method to be used should not be an attempt to associate the increased cost with the cost involved in the movement of individual segments of traffic. This is basic because of value of service and competitive considerations.

To apply an increase so that the amount of the increase would be specifically related to cost factors in individual rates, would require that each rate or class of rates would have to be individually examined and both the variable cost of handling the traffic and the contribution over variable cost determined. The cost factors which were subject to increase would then have to be separated (for example, the wage content in the cost) and then the amount of increase in the wages and the other cost factors involved determined and applied to each of the cost elements. Having determined these amounts, then each rate or class of rates would have to be increased in accordance with the increase in the cost elements associated with the rate.

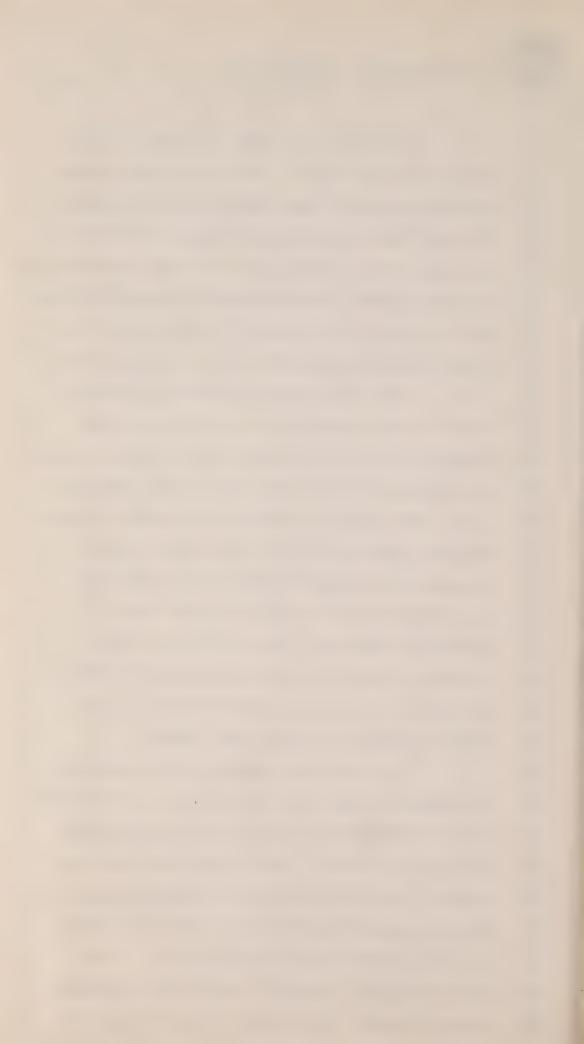


strictly on cost, that is, that each rate made exactly the same contribution over variable cost, this would obviously mean that there would be agreed variation in the amount of the increase applied to each individual rate or group of rates, and there would be no uniform pattern. That is to say, the percentage of increase would vary greatly as between individual rates or groups of rates.

Under the Canadian freight rate structure,
there is a wide variation in the contribution over
variable cost made by different rates. This has already
been explained and the resons for it fully discussed.

As the contribution over variable cost varies so widely,
depending upon the ability of the intific to pay
transportation charges and competitive factors, it
follows that the cost elements included in the
contribution must also vary, and therefore, the
increases in these cost elements would not be the same
in each case. The result of this would be an even
greater variation in the increases applied.

If, as has been proposed to the Commission, the Canadian freight rate structure were to be revised to be more directly related to cost than at present, although not solely so, the situation would still be complex. Even under the British lolumbia proposals, it was not suggested that each rate would make exactly the same contribution over variable cost. In the case of so-called "captive" traffic under the British Columbia proposal, the measure of the rate would be



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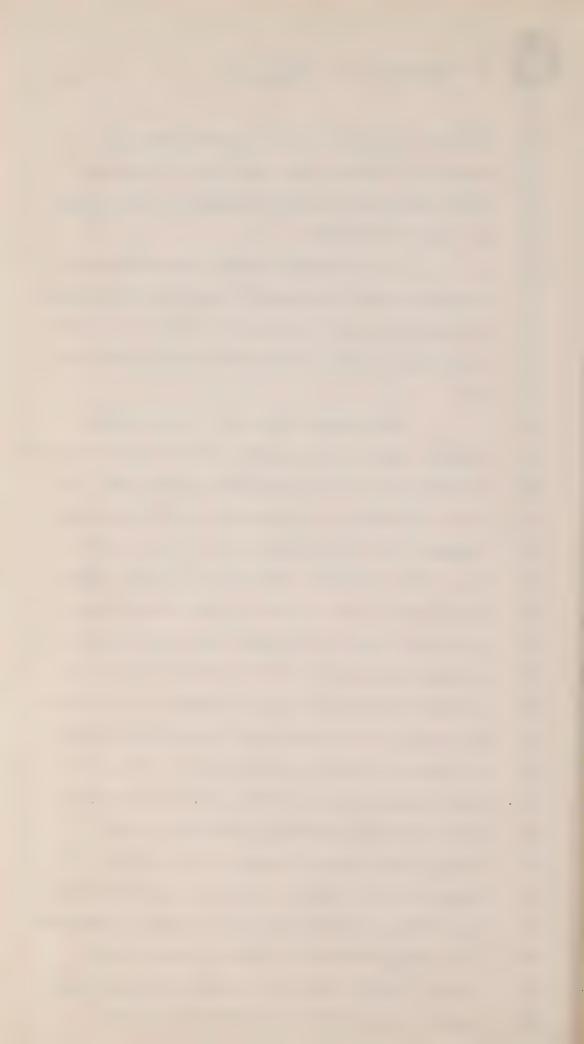
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limited to the full cost as a ceiling, that is,
variable cost plus a full contribution to constant
costs except under certain circumstances when a higher
rate could be charged.

In "non-captive" traffic, the influences of competition would determine the contribution any given rate would make over variable cost. Some rates would contribute less than fully distributed costs and some more.

Even assuming that all of the so-called "captive" traffic could pay full costs and still continue to move freely, which is certainly not the case. it would follow that a cost oriented method of applying a general rate increase would fall unevenly on the entire rate structure. The "captive" traffic might bear a more or less uniform increase, varying only as to the cost elements upon which the rates were based and the continuing ability of the traffic to move. The "non-captive" traffic would be subject to a wide range of increase, depending on the forces of competition. The extent to which the "non-captive" traffic was found unable to bear its full share of the increase, again because of competitive conditions, would invariably be reflected in the need for further increases on the "captive" traffic. In other words, that traffic would have to bear the share of increased costs which could not be obtained from the "noncaptive" traffic and so the ceiling of variable cost. plus full contribution to constant cost on the



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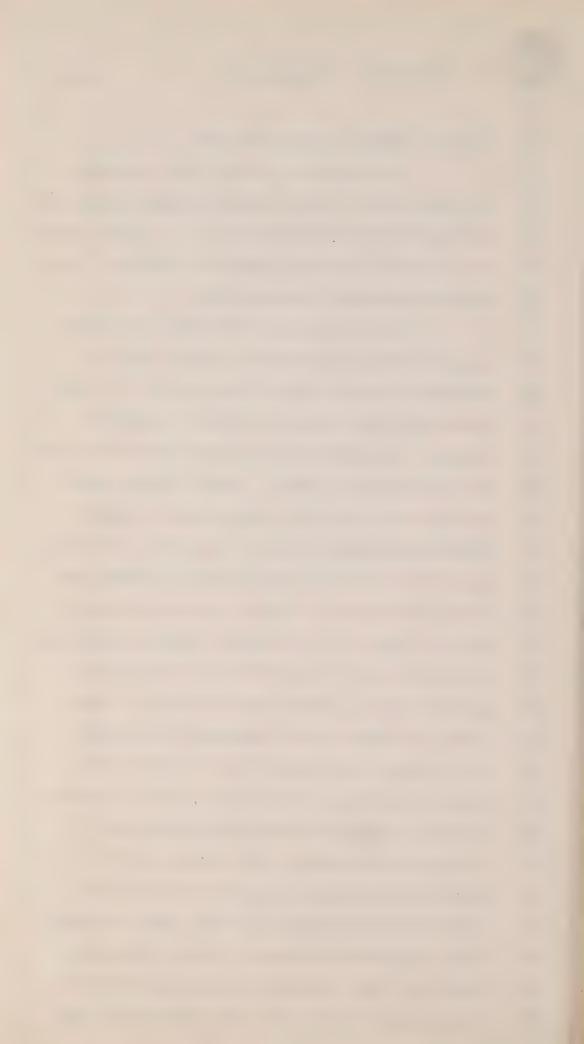
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"captive" traffic, would be exceeded.

I have dealt so far only with the results that would follow from an attempt to apply a fully cost oriented method of increasing rat s in a general revenue case, assuming that such a method was feasible. This assumption requires some examination.

The physical job of analyzing each rate or group of rates to determine the variable cost of handling the traffic which it moves would be an almost insuperable task, bearing in mind the thousands of different compodities that are handled and the millions of rates that are in effect. Even if it were found possible to do this work; and which would require probably some years of effort, much of the information would be out of date and of no value by the time the survey was completed. Freight rates are not static. They are subject to ever constant change and adjustment as the economy of the country and the needs of the shippers demand. Neither are costs static. They change from time to time, depending on the changes in the various cost elements that are included in railway operation. But if it were possible to arrive at some satisfactory or reasonable satisfactory conclusion with respect to the variable cost of handling each individual unit of traffic, and the contribution over variable cost that each rate makes, and so calculate the amount of increase which each rate should bear, there would then remain the task of publishing the new rates. This would involve the

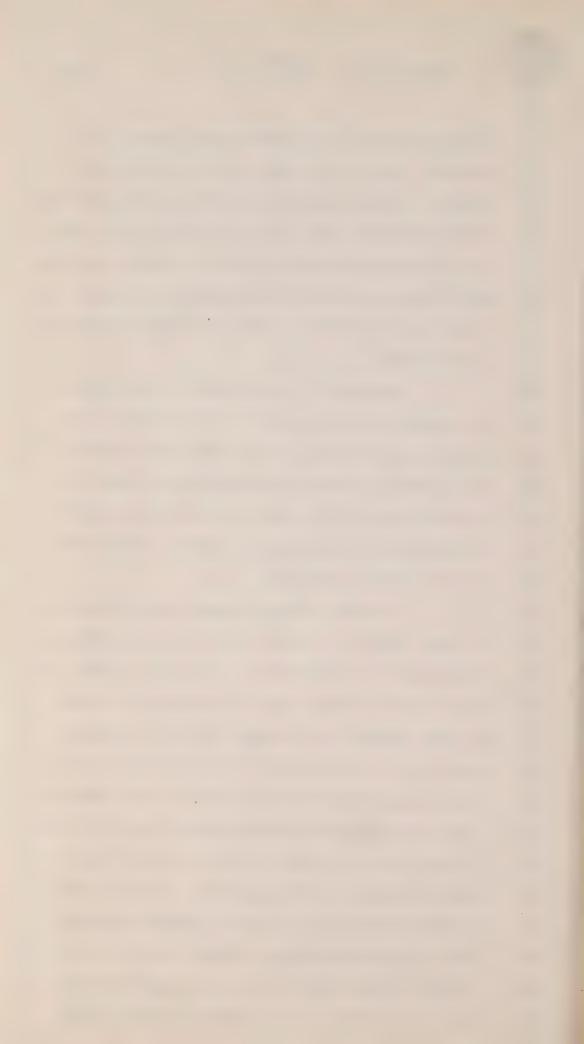


re-publishing of every freight tapiff issued by the railways. There is no other way in which it could be done. The Commission may be aware of the voluminous nature of freight rate tariffs in Canada, but so that some idea may be obtained of what is involved, Canadian Pacific alone publishes between stations in Canada some 10,372 pages of freight tariffs, many pages containing over 100 rates.

Under such a complex method of determining the increase for every rate or class of rate and of getting it into effect, which I have just described, it can readily be seen that the railways financial position would be very precarious indeed long before the additional revenue from the general freight rate increase could be obtained.

A general revenue increase should be applied to rates insofar as law and traffic factors permit.

Under the Canadian freight rate structure, by law, the rates for the largest single transportation job the railways perform - the movement of grain to export positions in western Canada - is beyond the power of the railways and the Board to adjust to meet changing conditions and cost of transportation as may from time to time arise. No other rate in the whole freight rate structure is in that position. All other rates are changed from time to time as changing conditions and costs of transportation require. However, all of these changes cannot be made in a general revenue case. For example, to allow traffic to move freely



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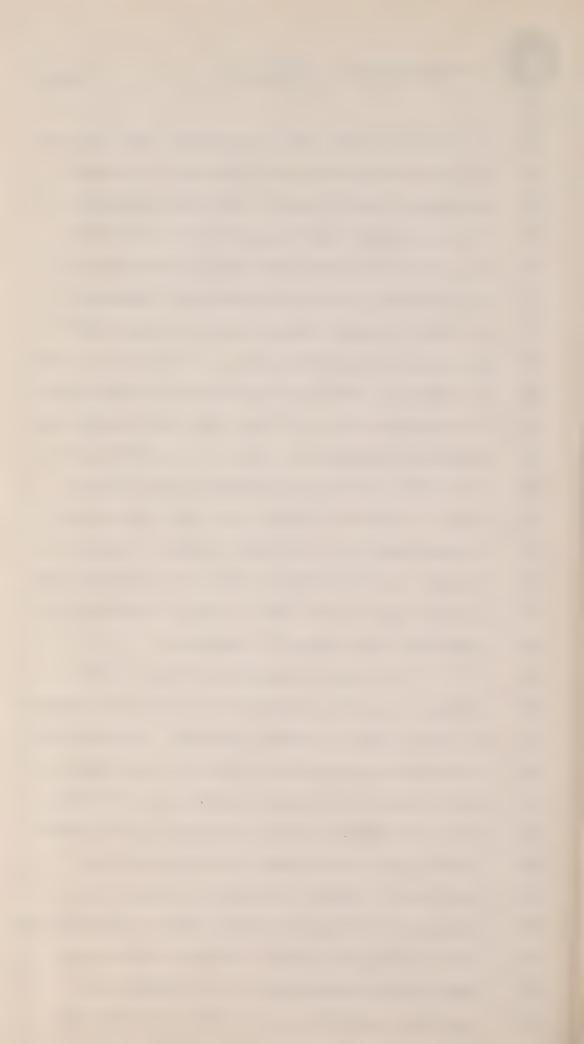
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in competition with American producers, some rates are adjusted at the same time as adjustments are made in the United States. However, when these adjustments do not allow the rates in question to be maintained at a level that contributes more than the variable cost of moving the traffic, individual adjustments are made. Another example is agreed charges which do not contain an escalator clause, or which have not been in effect for sufficient time for the escalator clause to become effective. In these cases, the railways make individual adjustments as soor as the contract permits, or as soon as the traffic conditions which fix the level of the agreed charge in the first place enable a higher rate to be instituted. Again, of course, if the level of the rate is not making a contribution over variable cost and the traffic cannot be retained at a higher rate the contract is terminated.

pattern is adopted. Sometimes these rates are increased at the same time as general increases. At other times, a general across-the-board increase in these rates is made in advance of a general revenue case. At other times, the increase is made subsequent to the general revenue case, and sometimes, adjustments are made individually. Indeed, adjustments in these rates individually are going on at all times as the competitive forces change. At one time, there was a feeting by some that the railways were not as aggressive in increasing competitive rates as they might have been.



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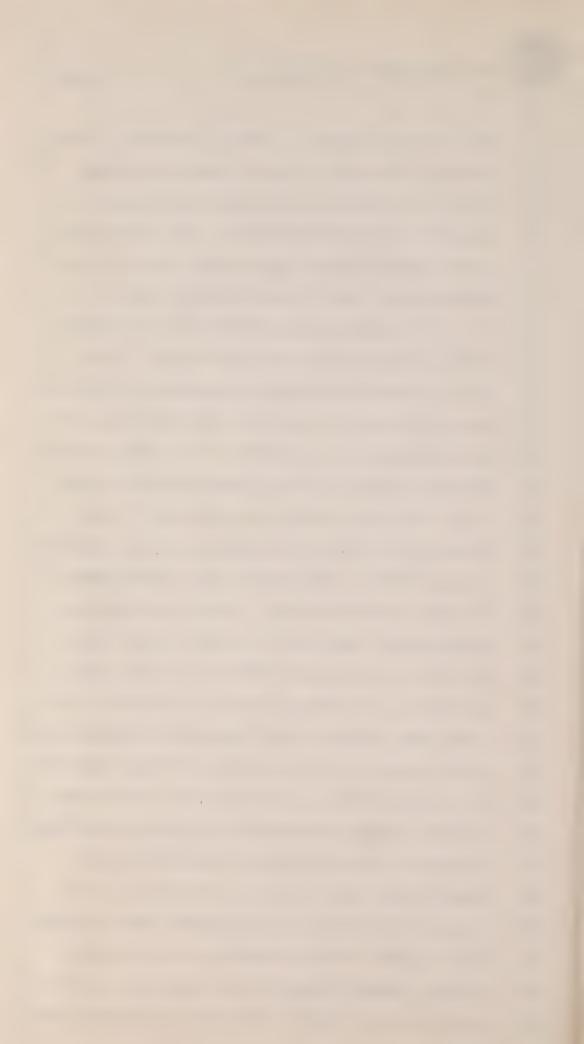
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This feeling has largely, I think, disappeared. Some years ago, criticisms of lack of eggressiveness on the part of the railways were such that the Board conducted a special investigation. The results of the Board's Traffic Officer's analysis are set out in the Judgment of the Board in the 17% Case of 1952.

A number of people attempt to divide freight

traffic between "captive" and "non-captive". This type of approach is foreign to a practical traffic man. People who attempt to make this distinction do so on the assumption that some traffic is the particular and exclusive preserve of the railways to exploit as they will. This type of traffic doesnot exist. As the Commission has been told, competition actual or potential is all-pervasive. Then someone might ask "Why aren't all rates competitive rates?" "Why do you have some rates that are competitive and others that are normal?" The answer to a practical traffic man is that much of the traffic, for example, moving at class rates, is of a type that, because of its transportation characteristics (either weight in relation tobulk, or claims experience. or size of shipment) is not within the cost area that competing modes of transportation will meet, even though such traffic may be high rated in relation to the average revenue per ton mile of all traffic, or the average revenue per ton mile of traffic moving on other types of rates. In the commodity rate group which includes commodity mileage scales and specific commodity rates. I wish to emphasize that specific commodity rates



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are sometimes set on the basis of competitive factors, even though they are not marked competitive rates. However, there is a large bulk of traffic moving at non-competitive commodity rates not because there is no other mode of transport than can carry that traffic, but because no other mode of transport can carry it at the low rates at which it is moved by rail.

The proportion of the railway traffic which moves at class or commodity rates and is not marked "competitive" for the reasons I have just given, represents a larger proportion of the total traffic in some areas of the country than in other areas of the country. This does not mean, however, that in general revenue cases, this traffic is being called upon to bear an unfair burder or an unjust proportion of the increase.

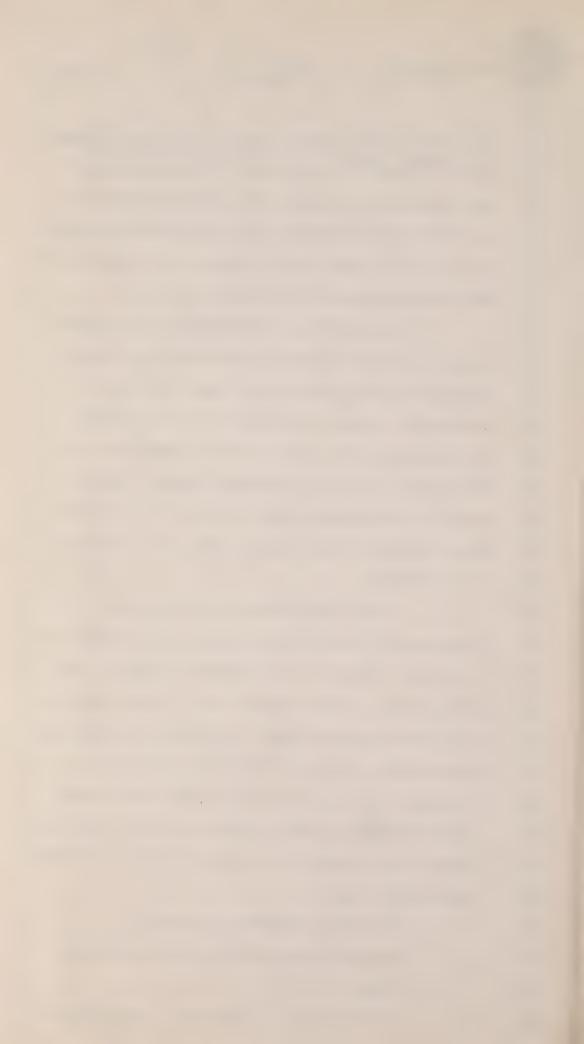
I have discussed some of the general principles and considerations which must determine the method to be applied in implementing changes in rates arising from a general revenue case. I now propose to discuss the various methods which have been suggested in proceedings, bearing in mind the underlying principles upon which the freight rate structure has been developed in Canada, and the practical effect on shippers and railways of the various methods suggested. These methods are:

Horizontal percentage increases

Horizontal percentage increases with hold

downs

Flat increases in cents per unit of traffic



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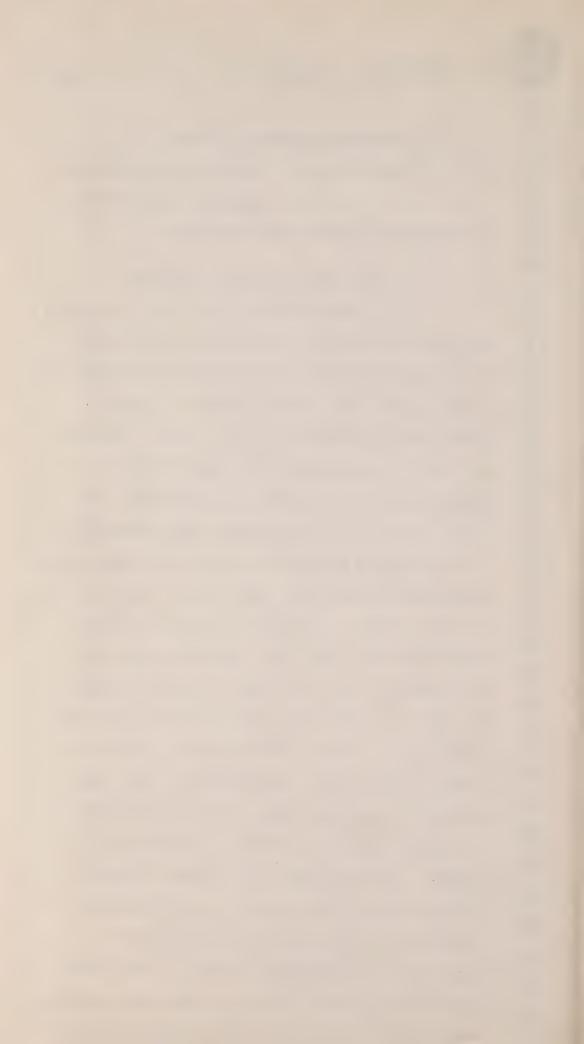
Graduated percentage increases

50/50 Increase - horizontal percentage and
cents per unit of traffic.

I will discuss these in the order named.

Horizontal Percentage Increases

As I stated earlier, this is the method that has been applied in all the post war revenue cases. In applying the method, Canadian Facific esti ates the amount of additional revenue required to result in a given level of permissive nar rail income Estimates are made on a constructive year basis, that is, by taking adjustments in rates which have taken place within the year of the application and constructing a revenue figure which will reflect such changes being applicable throughout the entire year Similarly, for expenses, changes in labour and naterial costs and taxes which have taken place during the year are calculated on a full year basis. From the estimated revenues and expenses for the constructive year thus developed, the amount of the deficiency in net rail income is determined. A calculation is then made to show what a giver percentage of increase applied to the various segments of traffic is estimated to produce. In these calculations weight is given to law and traffic factors as well as attrition and erosion of traffic which will follow from the application of the proposed increase. These factors are taken into account in the estimated revenues which would follow from the percentage increase proposed.



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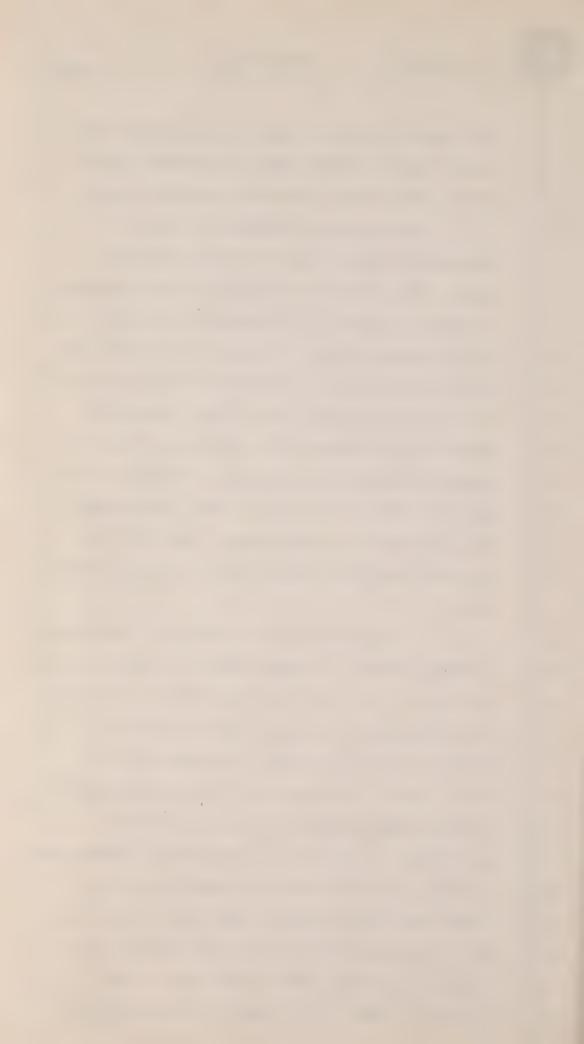
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As I indicated earlier, there is one exception which is coal and coke traffic where an increase in cents per ton rather than a percentage increase is used.

When changing conditions or cost of transportation bring about a need for additional revenue, the necessity is to distribute that increase as fairly as possible. By increasing all rates proportionately insofar as law and traffic conditions permit, the additional revenues which the railways are to receive are applied evenly and the fundamental factors which influenced the rate-making in the first place are given due consideration. If problems arise, individual shippers are able to raise them and have them determined. For this reason, individual rate problems should not be dealt with in a general revenue case.

The application of the horizontal percentage increase results in varying amounts of absolute increase per 100 lbs. That is, a rate which has had to be made on a relatively low basis in order to permit the traffic to move or to enable the manufacturer to find a market, or for any one of the mary reasons that influence rate making, by bearing its straight percentage, is subject to a lower acsolute increase per 100 ?bs. than in the case of a commodity of much higher value which experience has shown can and does move freely and with ability to pay transportation charges at a higher level or which moves longer distances. This, it is claimed, creates distortions



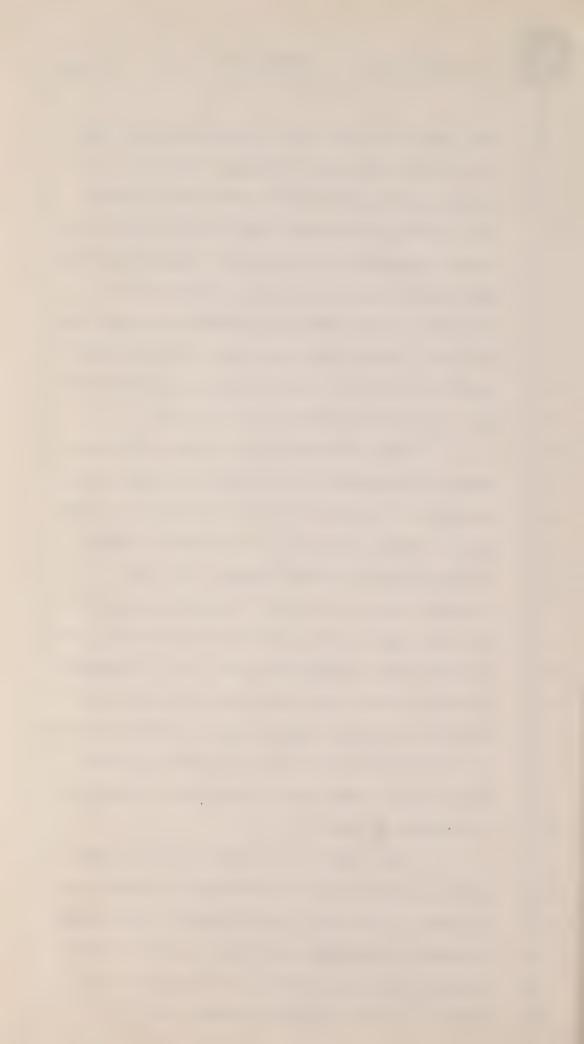


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and anomalies in the rate structure, disturbs rate relationships and imposes an undue burden on shippers whose goods must move for long distances. It is further claimed that this method results in the western provinces and the Maritime provinces and long haul shippers generally paying an unduly large proportion of the additional revenue required by the railways, leaving Ontario and Quebec in a preferred position because of relatively short haul traffic and the influence of competition in this area.

These statements are obviously made with a lack of understanding of the freight rate structure, because, as I have said already, distance is a factor in rate making. Obviously, rates cannot be made without regard to distance because that is an important factor in the cost of actiling goods, but on the other hand, in their rate making principles, the railways have recognized that long houls do present some problems and they have tempered the effect of distance by various means designed to overcome as much as may be possible the effect of distance in the rate charged. Rate taper is one method. The use of arbitraries is another.

Rate taper is a principle of rate making whereby terminal costs are reflected by reducing the increment in the basic rate structure as the distance increases. Arbitrages are fixed amounts per 100 lbs. which are added to rates to or from a given basing point in order to construct through rates.



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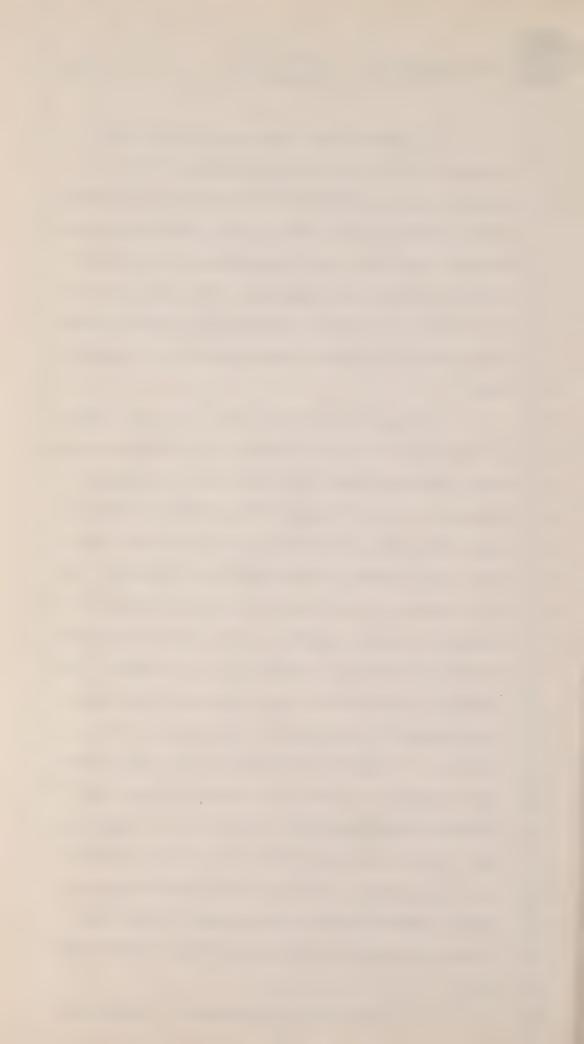
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I would direct the Commission's attention to 30

In order to test the actual effect of a horizontal percentage increase in freight rates on traffic moving to andfrom the various regions of Canada. a record was kept of a sample of all traffic moving from December 1st, 1958, (when the increase of 17% became effective) to November 30th, 1959. The sample used was the 1% sample of waybills submitted by Canadian Pacific to the Board of Transport Commissioners for its Waybill study.

Attached is Statement 310 showing the results of that test. As will be observed the traific has been broken down into three categories, that is, traffic moving at so-called "normal" rates, traffic moving at competitive rates, and traffin moving at sarred charge rates. The results of this study are significant. As will be noted, a record was made of the revenue actually obtained by Canadian Pacific at the rates in effect at the time of movement, including the 7% increase. This revenue was compared with the revenue that would have been obtained at the rates in effect prior to the increase. It should be noted that traffic which moved after December 1st, 1958, at a competitive rate, was included in the competitive category, even though the rate in effect on such traffic prior to the increase was a normal rate. Similarly, with agreed charges, the traffic category has been based on the type of rate at which the traffic actually moved after November 30th. 1958.



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paid an average increase of 12.4% from Ontario and Quebec to the west, of 8 8%, and from the west to Ontario-Quebec, of 7.8%. that the percentage of increase paid by the various

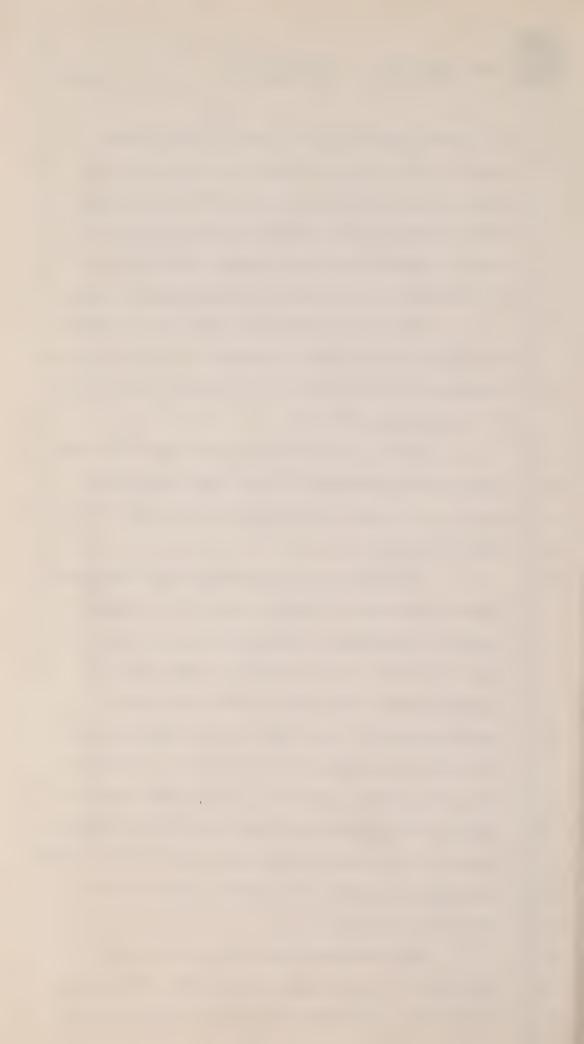
the summary appearing at the foot of the statement comprising the traffic moving at all three types of rates. It will be observed that traffic within the Maritime provinces paid an average total increase of 8.6% as compared with traffic moving within Ontario and Quebec of 11%, and within western Carada of 11.1%. Traffic moving from the Maritimes to Ontario

and Quebec paid an average increase of 7. % from Cotario and Quebec to the Maritimes, of 11.3%, and from the west to the Maritimes, of 0:4%.

Traffic moving from the Maritimes to the west

It will be seen from the foregoing comparisons regions on the average was approximately the same. In other words, the increase within the west was only slightly greater than withir Criario and Quebec. notwithstanding the claim which his so often been made that Ontario and Quebec, in large measure, escape the burden of a general increase. Also of significance is the fact that the so-called long haul traffic, that is, between the Ont. Que. and the west, pays a lower relative percentage of increase than traffic moving locally within these regions.

The foregoing figures show the average percentage of increase paid on the traffic that moves. The statement also shows the total increase in dollars

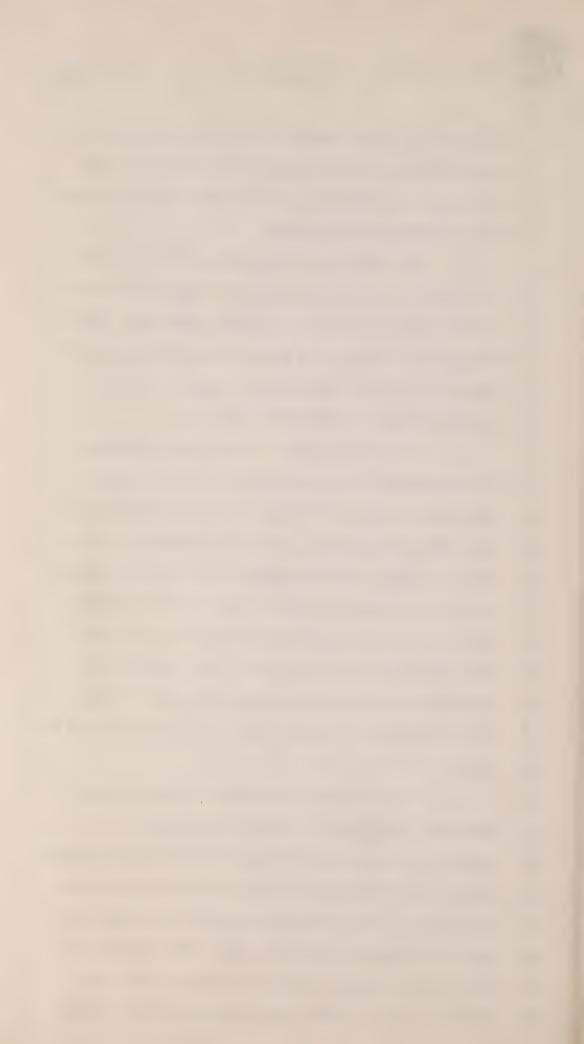


and cents. In that respect, the traffic moving locally within Ontario and Quetec, and within the west made the largest contributions, 30.5% within Ontario-Quebec and 36% within western Canada.

The study demonstrates that the horizontal percentage increase method does not impose an unfair or unjust burden on any area. It also shows that traffic moving within Ontario and Queice does not escape the impact of a general increase, but does, in fact, contribute a very substantial part of it.

It is significant also to direct attention to the fact that the percentages of increase and the additional dollars of revenue as shown on Exhibit No. 162, reflect the revenue received by Canadian Pacific and not charges paid by shippers. The actual charges paid by the shippers would be less in total dollars because of the Maritime Freight Rates Act, the East-West Bridge Subsidy, and the Roll Back Subsidy. In other words, this statement shows the effect of the 17% increase as if transportation subsidies were not in effect.

The horizontal percentage increase method meets the tests which I referred to earlier as controlling the method to be applied in general revenue cases. The hearing resulting in the 17% increase was expeditious; the application was dated September 16, 1958; the hearing lasted four days; the judgment and order of the Board of Transport Commissioners were dated November 17, 1958; and an appeal to the Bovernor



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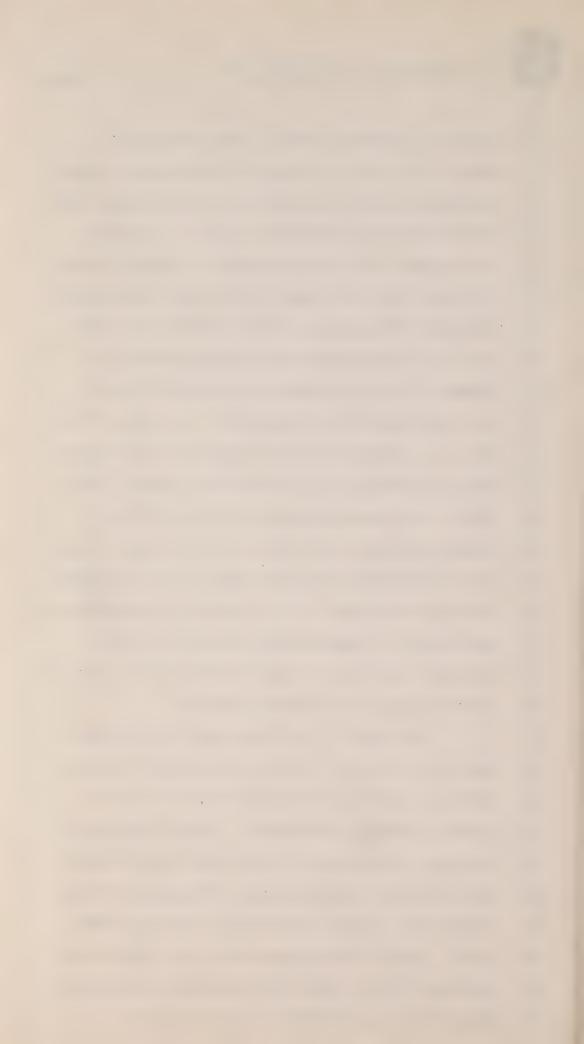
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General in Council was taken by the provinces on November 18, 1958; the finding of the Governor General in Council was made on November 26, 1958, and the rates became effective on December 1, 1958. To implement the increase it was only necessary for Canadian Pacific to publish 178 tariff pages, Costly and time-consuming individual rate analysis was not undertaken but where this was necessary arising from representations of shippers, it was done after the increase and only in cases where specific prorlems made i' recessary. The study of the impact of the 17% increase on the various areas of Canala and the result of the increase in the various rate categories shows that it is fair to shippers and areas. The st dy also shows that it has kept in balance the basic rate atmusture and introduced the least disturbance to it. Because the increases were evenly applied insofar as law and traffic factors permitted, the shipper of one commodity was not favoured over the shipper of a competing product.

The result of the 17% increase of December 1, 1958, did not produce revenues which enabled Canadian Pacific to maintain a reasonable level of net rail earnings because of two reasons: first, adjustment in the level of permissive net rail income was not dealt with nor was the increase based or developing revenues sufficient to provide a reasonable level of net rail income. Both of these issues were to be determined in the second hearing before the Board which was adjourned because of the appointment of your Commission.



Downs:

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Horizontal Percentage Increases with Aold

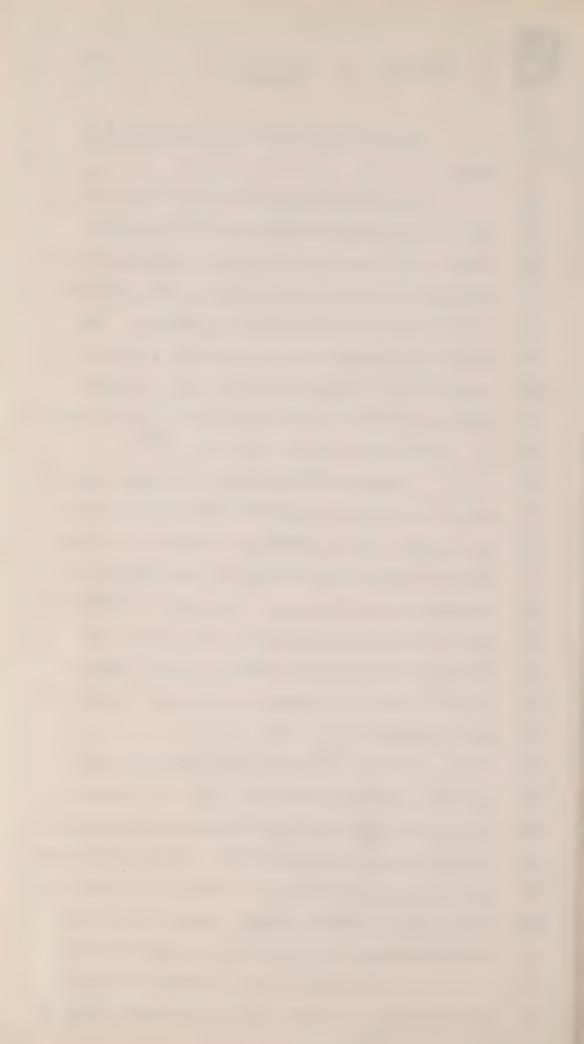
Horizontal percentage increase with hold
downs is a method whereby horizontal percentage increases are restricted as eroi rarily imposing a maximum
increase in a given, rate or class of rates, generally
a fixed amount in cents per unit of traffic. For
example, an increase of 10 per cent with a hold down
on livestock of 20 cents per 100 pounds, or another
example, an increase on sand and gravel of 10 per cent
with a hold down of 20 cents per ton.

A general increase with a hold down visualizes that at some point, the contribution from the freight rate increase on the commodity, to which the hold down applies, remains at a fixed level, regardless of the distance the traffic moves. The method of determining the amount of the hold down has never been set up.

Neither has it ever been stated what method would be adopted to select the commodities to which the hold down would be applied.

It has loosely been said that hold downs should be applied on long naul traffic but nobody has ever define! one new traffic and the long naul traffic to Saskatchewan could be short haul to Alberta, and what is long haul to the Head of the Lakes could be short haul to the whole of Western Canada, and what is long haul on sand and gravel is extremely short haul on lumber.

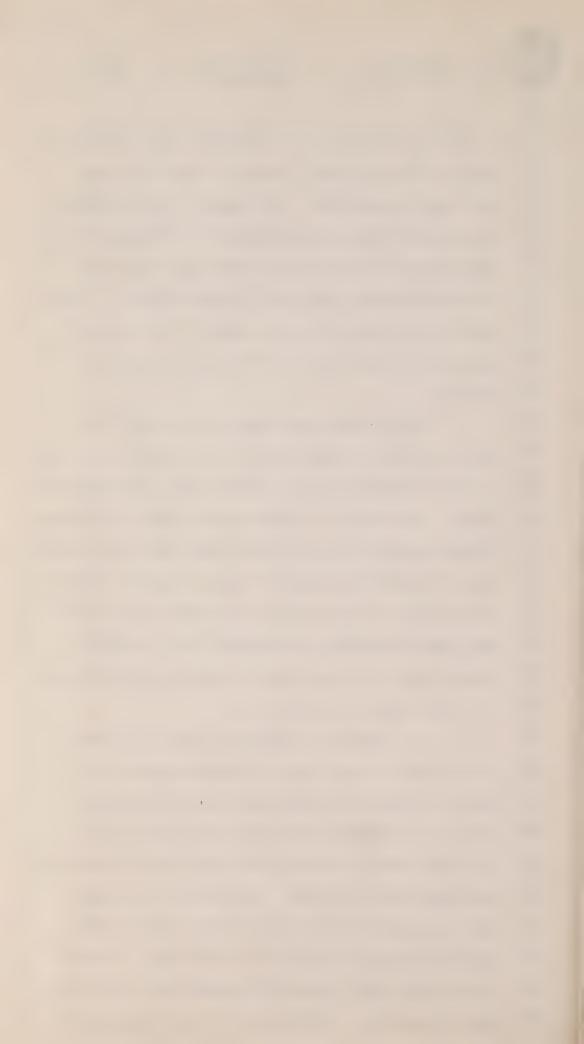
Assuming that it was arbitrarily decided to fix a maximum of a certain amount per hundred pounds on



all traffic, it would result in higher rated commodities paying a lesser increase, distance considered, than lower rated commodities. For example, the hold down, and therefore the maximum increase on refrigerators would come into play for relatively short hauls while that on sand and gravel might never become effective. There would be variations as to the length of haul and the effect of the hold down on almost every commodity handled.

In addition, this method would result in some traffic that could take the full increase not doing so, thus unfairly placing on other traffic an additional burden. This would be so because the reduction through the application of the held down would have to be reflected in a higher percentage of increase and all traffic to which the hold down did not apply would have to pay that higher percentage increase and thus provide the revenue lost by not applying the increase proportionately to all the traffic involved.

If instead of a maximum increase applicable to all traffic, hold downs of varying amounts were applied to different commodities, the more complex problem of determining the commidities on which the hold downs should be applied and the amount of the hold down would have to be met. This would lead to endless controversy on the part of those shippers whose commodities are not subject to a hold down, or where the hold down was less than the amount being applied to other commodities. Obviously, arbitrary judgment of



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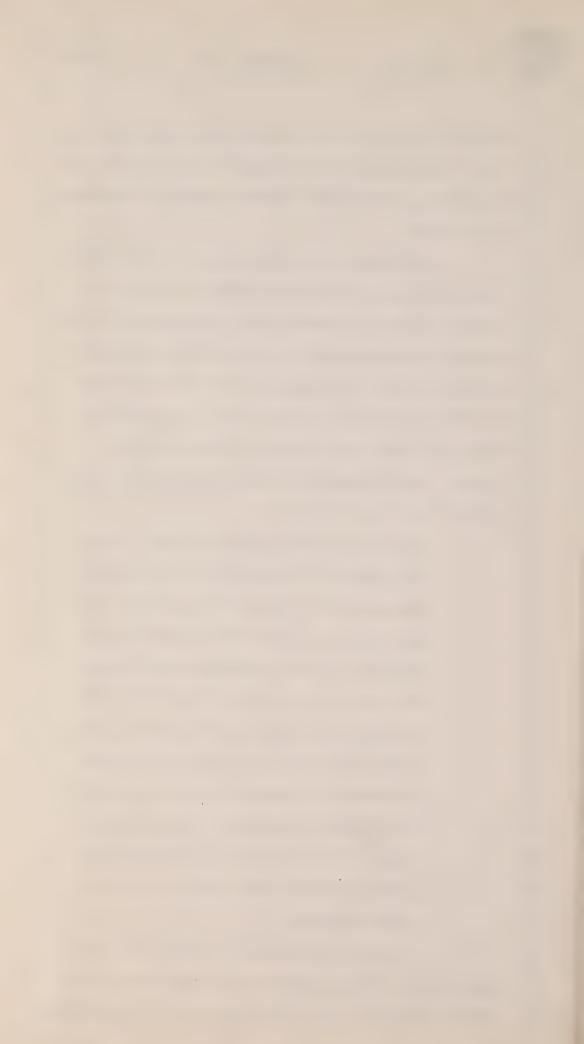
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some kind would have to be employed and unfairness to either the railways or the shippers could very well be the result, but certainly numerous anomalous situations would arise.

Following the recommendations of the Tuygeon Royal Commission regarding the method of applying increases in general revenue cases, the railways in 1951 proposed as an alternative to a horizontal percentage increase a higher percentage increase with hold down on a number of specific commodities. The Board in dealing with this application (12% Case (1951) 68 C.R.T.C. 1 at 5) granted a general percentage increase without hold downs but said:

> "The Board is not disposed at this time to give effect to the applicant's alternative proposal for a 15% increase (on top of the 5% in Part I) with certain exceptions, and suggests that the applicant should develop and present to the Board, before the next hearing of Part II, proposals more in conformity with the conclusions of the Royal Commission on Transportation on the subject of horizontal increases. The Provinces which were represented at the hearing objected strongly to the applicant's alternative proposal."

In conformity with the direction of the Board in the hearings later in 1951 which resulted in the 17% Judgment of 1952 (68 C.R.T.C. 273) a substantial



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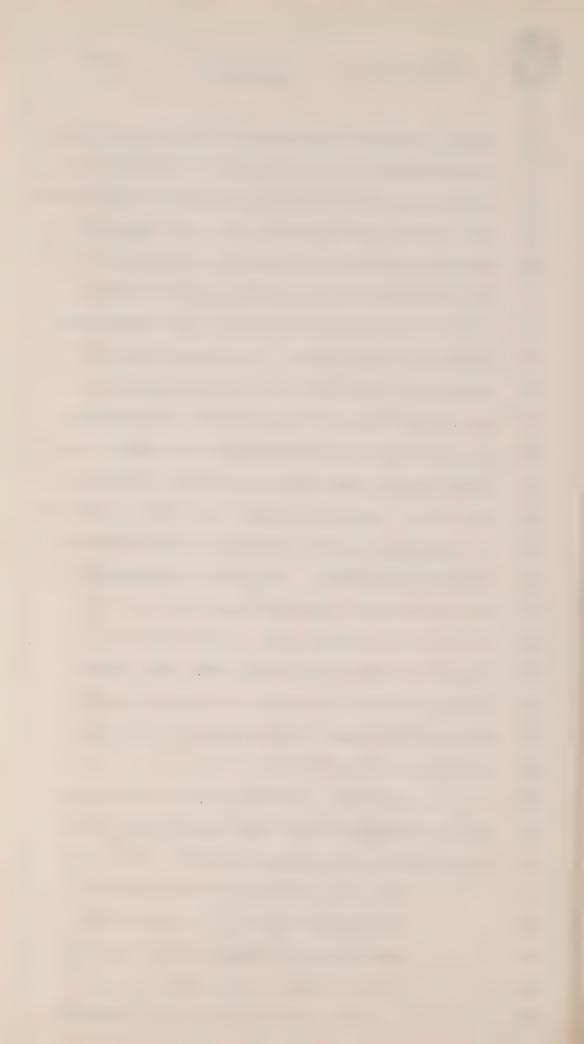
amount of evidence and argument was heard by the Board on the question of hold downs and the commodities to which these should be applied. The hold downs advanced and considered by the Board in that case consisted of commodities pickedby the railways, one upon which representations had been received by the railways from the shippers and the Board in its Judgment added another on its own motion. The railways made it clear to the Board that they were not advorating the method of the percentage increase with hold down but were doing so to conform with the recommendations of the Turgeon Royal Jommission and the directive of the Board. Very little support came from the shippers for such exceptions and conflicts soon developed as between various areas The exception proposed by the railways on livestock was opposed by one province on the ground that it would enable that commodity to move elsewhere for processing, whereas another province, in which the processing would be done, was in favour. The Board did not authorize a hold down on livestock.

The Board, in the 17% Case, in commenting on the situation of which the livestock was a specific example made the following statement:

"This example of conflicting interests shows how difficult it is to deal with exceptions in a general revenue case.

(1952) 68 C.R.T.C. 273 at 291)"

In the 17% Case, the railways proposed



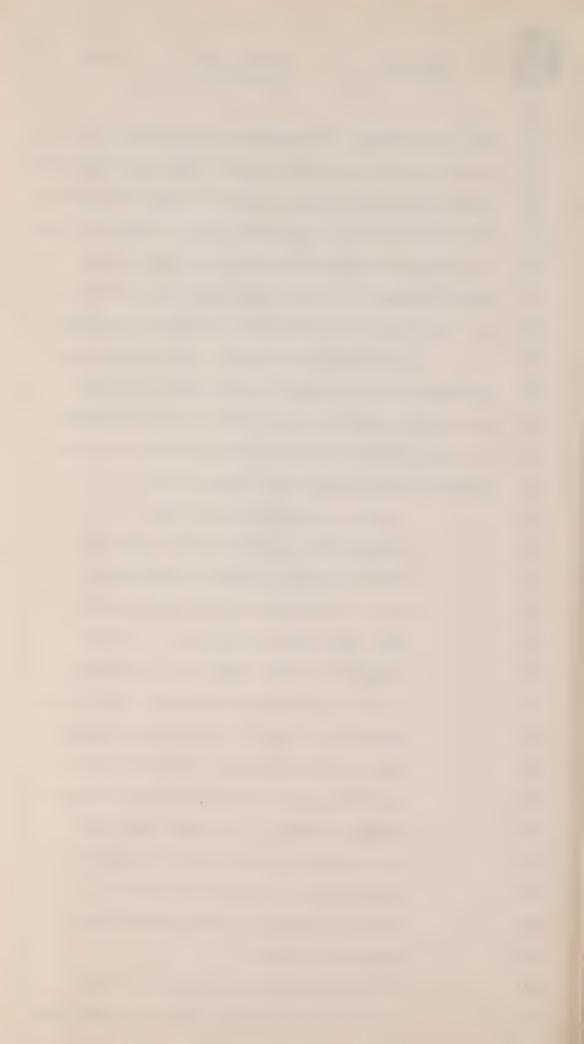
as an alternative, a flat increase of 10 cents per ton on sand, gravel and crushed stone. The Board authorized a flat increase of 10 cents per ton on sand and gravel but made the increase on arushed stone 20 cents per ton. On potatoes, the Board found that the then existing interim increase of 12 per cent should not be raised to 17 per cent as was authorized for traffic generally.

In a subsequent judgment, when dealing with contentions that exceptions or hold downs should be applied in a general revenue case, the Board reviewed the results of action that had been taken in the 17% Judgment of 1952, and on this subject said:

"In the so-called 17% case (1952) 68

C.R.T.C. 273) the railways had proposed a flat percentage increase without exceptions, or an increase of 1% higher if certain exceptions were included. We experimented at that time with 'exceptions' by holding the rates on potatoes down to the level of the previous 12% interim increase, only to find immediately thereafter that the market price of the goods rose to extraordinary heights. We became aware that the increase in price was due to shortage of goods; however, such modification as was there effected in the rate level has remained in effect.

"We also established a maximum increase of 10 cents per 2,000 pounds on building sand



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and gravel and 20 cents per ton on crushed stone and stone screenings, only to be assailed immediately by the crushed stone producers that their product was competitive with gravel. We promptly cancelled these exceptions so that a uniform increase applied thereto, evidently to the satisfaction of those concerned as no further complaint was made." (1956) 74 C.R.T.C. 209 at 234)

As I stated earlier, historically, increases on coal and coke in general revenue cases have been made on a flat cents per ton basis rather than by a percentage increase. This fact has created problems and complaints, which I will discuss when I am dealing with the flat cents per 100 pounds method later.

Practical experience demonstrated to the Board that attempting to make exceptions in a general revenue case only leads to conflict of interests, an unfair burden on some shippers and the preferment of others and generally unsatisfactory conditions obtaining all around. It is significant that since the 17% increase of 1952, the Board has not found it desirable to attempt to impose or instruct the carriers to impose any hold downs or exceptions in a general revenue case.

Although the provinces continued to complain of the horizontal percentage method of increase, no alternative was suggested until the case which was decided in 1958, when Manitoba suggested applying the principle of the Bridge Subsidy that is, the 50-50



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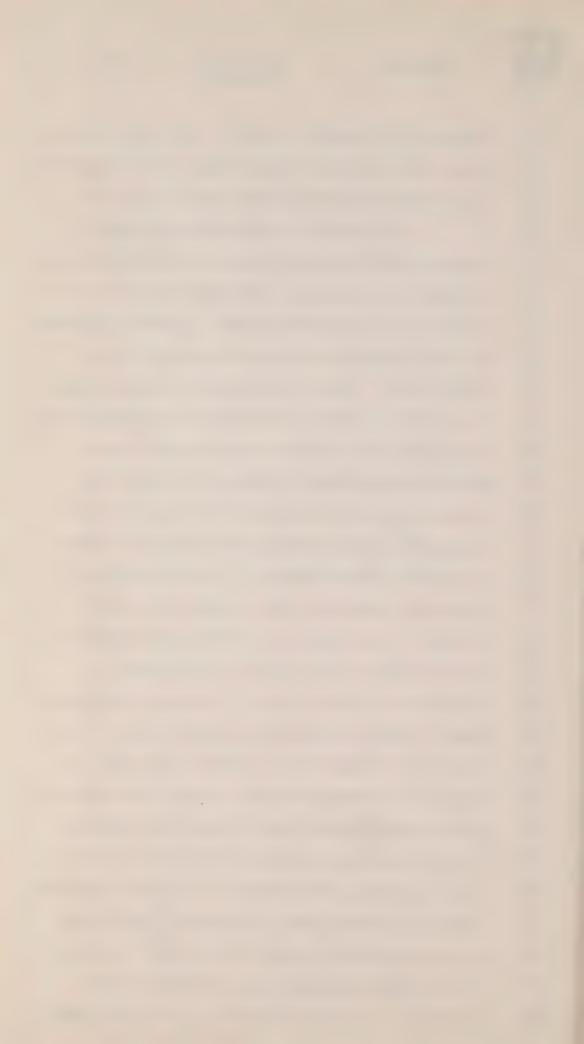
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approach to any general increase. The Board did not accept this proposal of Manitoba and I will discuss this method when I am dealing fully with that subject.

The method of a horizontal percentage increase with hold downs does not meet the tests which I referred to earlier as controlling the method to be applied in general revenue mases. Individual shippers who can be affected by the hold down may not receive notice. Time in the general revenue hearings was taken up in dealing with aperific rate situations which could have been more satisfactorily handled by discussions between the shippers involved and the railways, and failing agreement between them, by having the shippers bring an individual case before the Board for determination. It was impossible to determine a realistic basis, a basis that would be fair to all shippers in deciding which commodities were to receive relief by way of hold downs, or the amount of the hold down. Obviously, this method was not fair to shippers and railways alike It was favouring a shipper of one commodity over the shipper of a competing product and was also favouring the long haul shipper over the short haul shipper. It was attempting to control, for example, in the case of potatoes, one element of the cost of production and relate freight rates to a volatile market price. In the case of the proposal on livestock, it obviously needlessly disturbed long established market patterns. No attempt was made to justify the hold



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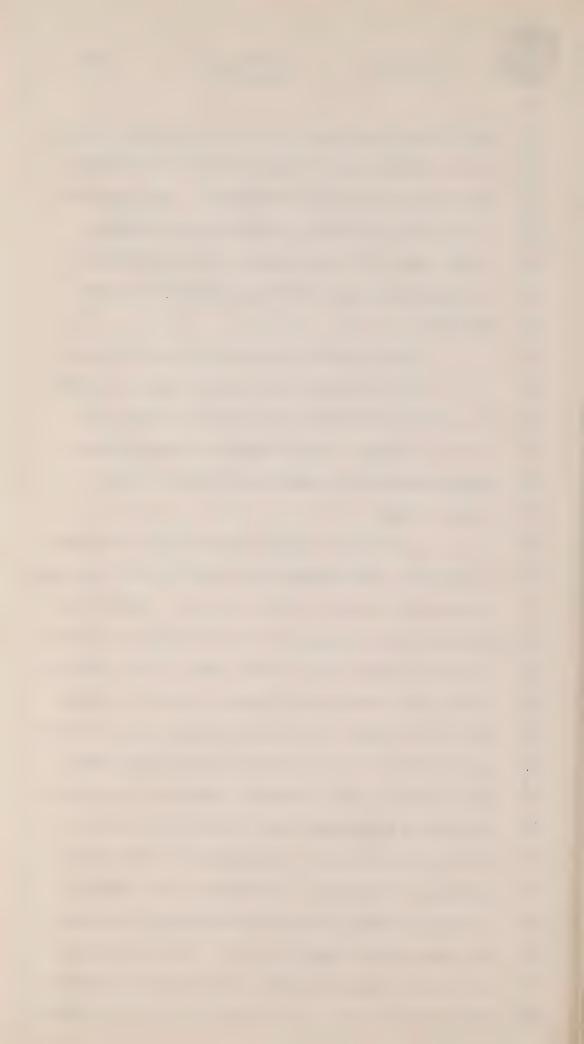
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downs on anything except on an arbitrary basis, but if such an attempt had been made, it would have further unnecessarily prolonged proceedings. The experience of 1951 and 1952 proved conclusively that general revenue cases could not introduce exceptions without creating unnecessary conflicts needless delays and unfairness.

Flat Increases in Cents Per Unit of Traffic:

A flat increase in cents per unit of traffic
is a method whereby the same increase per unit of
traffic is applied without regard to transportation
characteristics of a commodity, its value or the
length of haul.

As I stated earlier, historically the method of applying a flat increase per unit of braffin has been followed with respect to coal and coke. The transportation characteristics of rost and toke are the same eccept for loadability, but the other factors that is, value of the commodity and length of baul do differ. However, the range of value of aca and nove is relative ly less than the range of values of all other commodities moving on the rat, ways. Moreover in the basic coal scales in Western Canada there is reflected a difference in BTU s and accordingly the value between lignite and bituminous In Eastern Ganad there is a difference between rates on anthracine and bituminous coal again having regard to value. In both Eastern and Western Canada cokd, the lighter loading commodity, takes a higher rate. Again, in the case of coal while

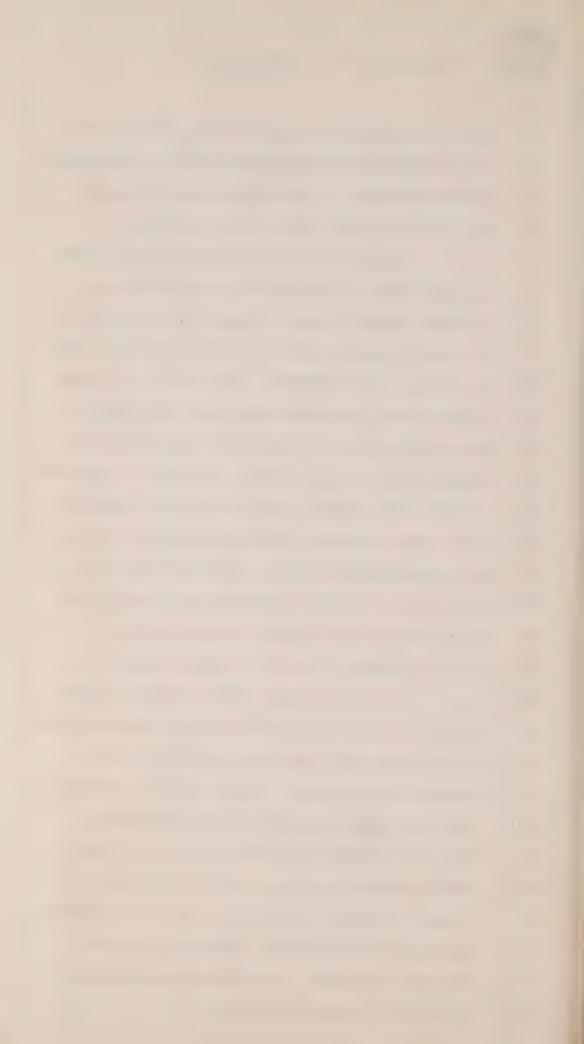


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there is a variation in length of haul, there are no really long hauls involved except where coal is moving under subventions. The average length of haul of coal traffic is less than all other traffic.

It would be patently impracticable with the very wide range of transportation characteristics, value and length of haul, to apply the same increase in cents per hundred pounds or other appropriate unit of traffic to all movements. To reflect in some way transportation characteristics value and length of haul would require differing flat increases by commodities and by length of haul. It sould be suggested that the flat increases would be graduated downwards in the same percentage relationship as is found in the Classification, that is, the highest increase would apply on traffic classified in Column 100 and the relationship of increase on other traffic would be the same as under the Classification.

to move freely certain commodity mileage rates are below the rates which the commodity's position in the Classification warrants. Again, specific commodity rates which cover only point to point movements because of competitive or other factors are lower than the commodity mileage scale for that traffic If this fact was not taken into account, the increase would bear heavier on these commodities than the rate level justified. Nevertheless, making such refinements is again impracticable.



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To take care of length of haul it could be suggested that the taper in the equalized class rate scale as prescribed by the Board of Transport Commissioners would indicate the gradations with distance. However, this would not provide for differing taper in class and commodity rates. Making such refinements is impracticable.

Even without refinements, for application

of the flat increase method, it is obvious that Canadian

Pacific would need to have readily available for a

representative period every traffic movement catalogued

by classification rating and by distance as well as by

tonnage. Such detailed statistics are not available.

It should be noted that averages cannot be used in

applying a graduated increase.

cerning the somewhat limited length of haul and value range in coal, the fact that flat increases have been applied to this commodity has caused complaints from the lithite producers in Saskathcewan. This has resulted inconflict between these producers and the Alberta producers of bituminous and semi bituminous coal which has been in issue before the Board of Transport Commissioners. In one case the Board gave some weight to the representations on behalf of the lightee producers although the increase authorized did not come into effect because of disallowance of the general increase on appeal. In the subsequent case the Board did not distinguish between lighter and other



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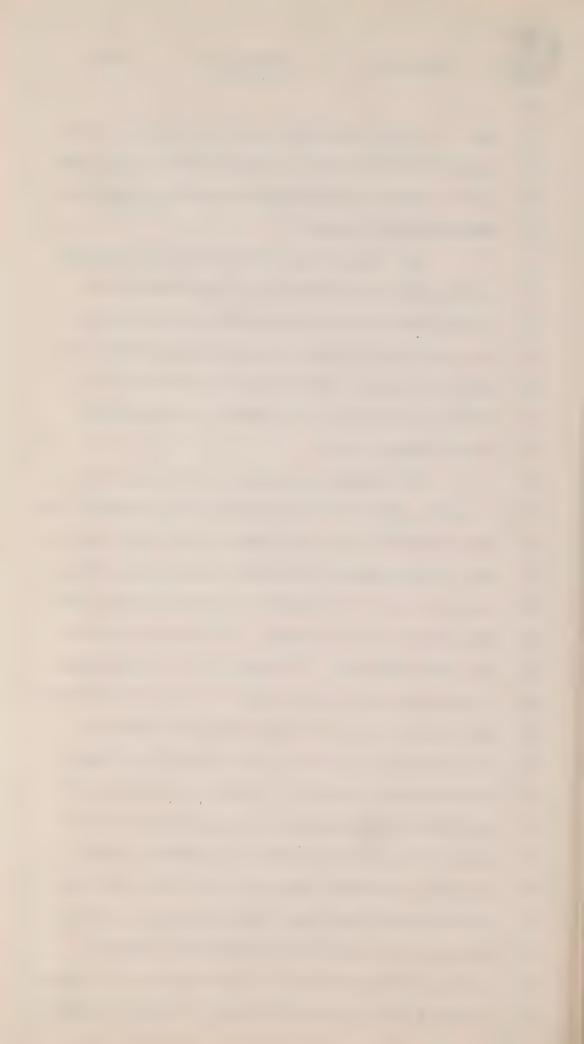
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coal. I should also mention that the effect of flat increases on short hauls of scal has made it necessary for the railways for many years to publish competitive rates and agreed charges.

As I indicated, a flat increase in cents per hundred pounds or other unit of traffic which does not take into account transportation characteristics, value and length of haul is patently imprecticable and could not meet the tests which I have referred to earlier as controlling the method to be applied in general revenue cases.

The method of increases in cents per unit of traffic graduated to take into account transportation characteristics, value and length of haul also does not meet the tests which I referred to earlier as controlling the method to be applied in general revenue cases. This method is not practical. It also disturbs the basic rate structure. It would involve the securing of detailed statistical information on all traffic movements which would be expensive and time consuming. To implement an increase by this method would require re-publishing all tariffs. Indeed it might require publishing additional tariffs to these new in effect because the graduations that are suggested are not the graduations that are in the basic rate structure This is because the taper graduation differs between the equalized class rates and equalized commodity mileage scales and there is no taper pattern in specific commodity rates, competitive rates and agreed charges.



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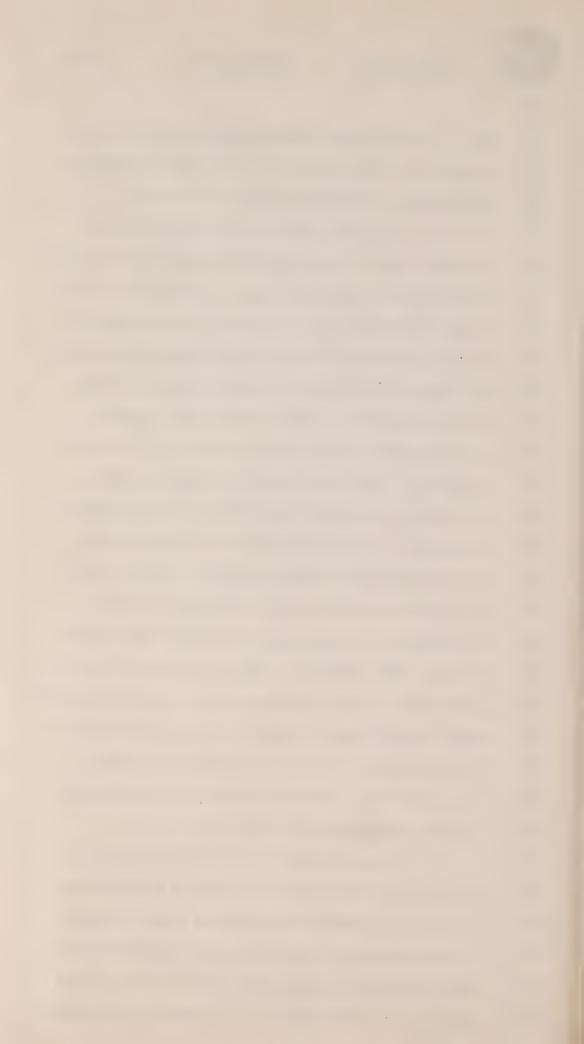
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What I have in mind is that exceptions would have to be made in certain commodities on pertain movements which might otherwise be treated as a group.

The method is not fair to shippers and railways alike. The flat increase method even though graduated on a class rate taper sould result in due regard not being given to the level of the rate because of differing taper in class and commodity rates. The shipper moving traffic under commodity mileage rates or specific commodity rates thus could be assuming more than his proper share of the increase required. This could impede the flow of traffic and result in numerous complaints to the raliways on the grounds of unjust application of the increase to the particular traffic involved. It could not be implemented within a reasonable time and the difficulties in estimating the revenue yield would be most time consuming. Just as in the hold down method which I have discussed the first increase method would involve .engthy analysis of individual rates and the contentions of shippers in regard to these rates which can better be handled by negotiations between the railways and shippers.

Assuming that the railways had made all the calculations necessary to reflect that increases taking into account transportation characteristics, value and length of haul, the Board might determine that the increase applied for was not justified and authorize a lower increase. In these circumstances



all the multitude of individual salgulations that were involved in the first instance would have to be repeated so that the tariffs could be set up to reflect the authorization granted by the Board.

Even assuming no other difficulties the cost of maintaining the statistics necessary and in re-publishing all tariffs after every general revenue case destroys the validity of this method.

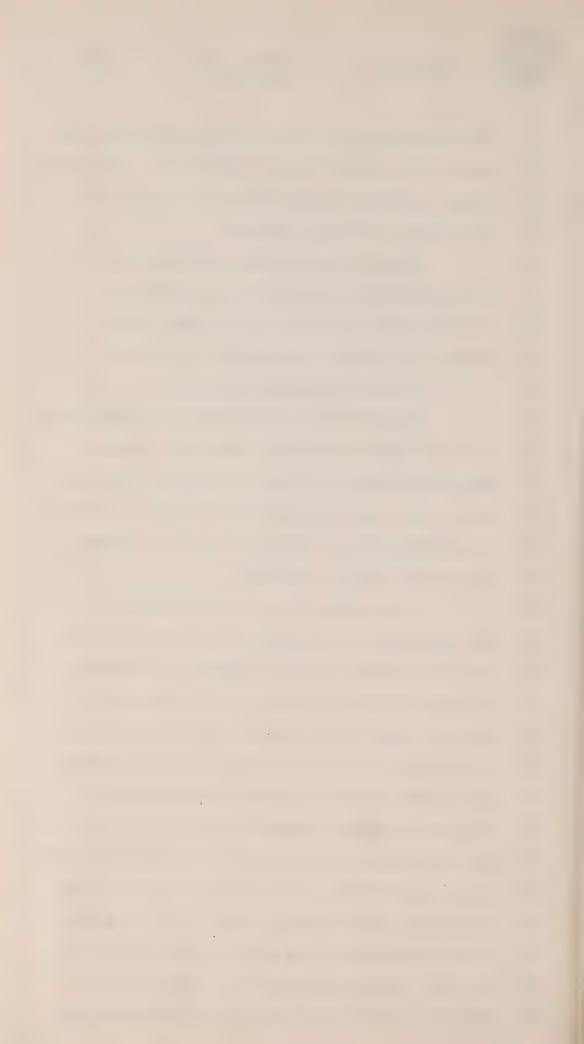
Graduated Percentage Increases:

Amother method whereby rates could be increased is that of applying graduated percentage increases.

Under this method rates would be increased percentage wise but the percentage would be graduated. A num ber of different means of gradation could be suggested although they are all arbitrary.

Association when they appeared before the Commission during the Toronto bearings suggested that graduated percentage increases be applied to the class rates using the taper in the equalized place for the gradation.

Assuming that there was to be a gradation to the percentage increase something related to the class rate taper might be appropriate for class rates but the question immediately arises as to what gradation would be applied to other types of rates. If it was based on the taper in the class rate scale and applied to equalized commodity mileage rates, a distortion in these rate scales would result because the tapers in



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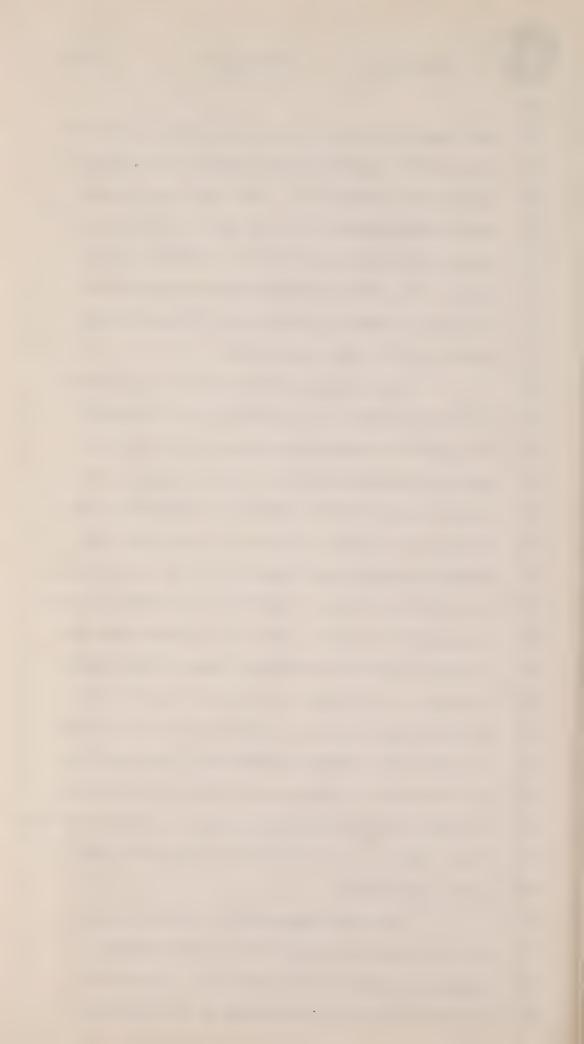
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Under the graduated percentage increase method shorter hauls would take proportionately greater increases than longer hauls The amount

of this distortion would depend on the gradation

the equalized commodity scale are different from the taper in the equalized class rate scale as well as varying among themselves. As I indicated earlier, there is no regular pattern of taper in apenific commodity rates, competitive retes and agreed charge rates. Any form of graduated percentage increase is merely a method of increasing the tarer to rates, Indeed, it is a taper on a taper.

All parties of interest had an opportunity of dealing with the taper question when the Board dealt with the equalized class rate scales and the equalized commodity mileage scales. Actually the Board did not adopt the suggestions alvanced by any interest but evolved a taper of its own after many months of analysis and consideration by the Board and its traffic officers. A graduated percent ge increase would undo this work. Lest it be assumed that the straight horizontal percentage increase does disturb the taper in the Board's prescribed class and commodity mileage scales, I should point out that this can only arise through disposition of fractions and the Board when it believes that this has had a significant effect requires the mailways to be publish their basic scales so as to maintain the taper that the Board prescribed.



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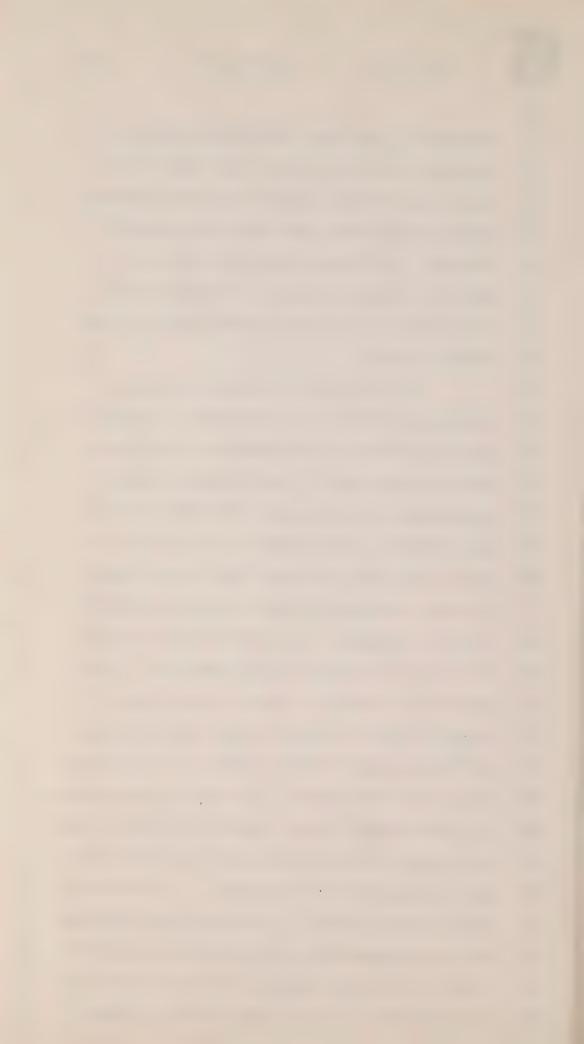
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introduced. This method has the disability of increasing the burden on short haul shippers and introducing relief on long haul shippers without any evidence to show that this would be equitable or necessary. By placing a heavier burden on the short haul traffic the problem of attrition and erosion would be intensified necessitating a higher overall increase.

The method of a graduated percentage increase does not meet the tests which I referred to earlier as controlling the method to be applied in general revenue cases. While it would involve substantially more statistical information than is now maintained, in this regard it would not be as great as that required by the flat increase method. It could be implemented simply in so far as tariff action is concerned. The method fails because it is not fair to shippers and railways alike. It is obviously an attempt to offset distances and to introduce a greater degree of taper than the Board after much injulry found justified. This is unfair to the short had shipper. It would be unfair to the railways because it would increase conflicts with shippers and make the burden of proof in general revenue cases much greater than at present It would delay general revenue cases. It would also make the short haul traffic much more subject to erosion and attrition. In the final analysis, it would therefore be self-defeating so far as giving relief to long haul



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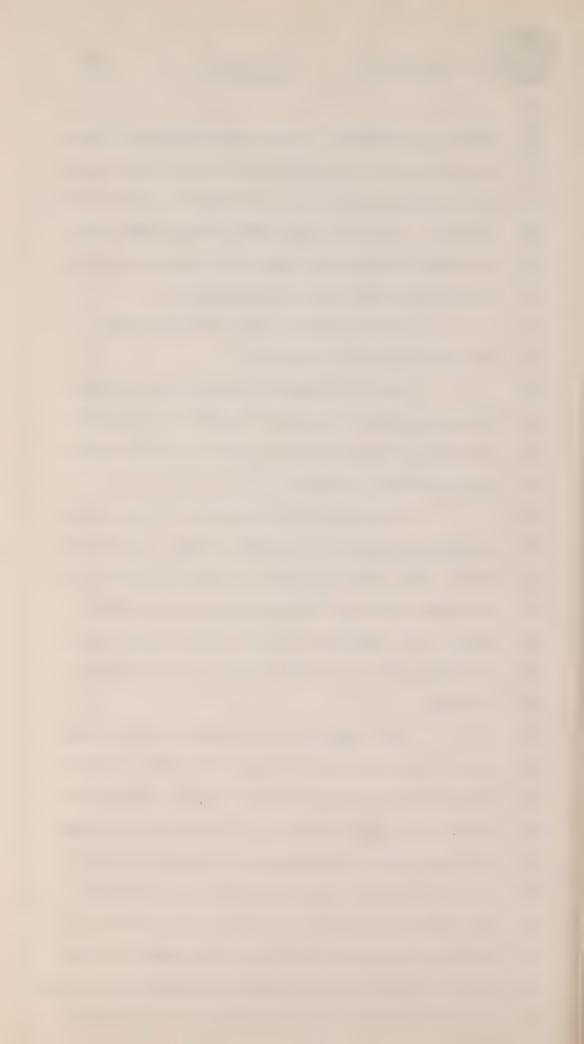
traffic is concerned, because the additional revenue that could not be obtained from the short haul traffic would inevitably have to be obtained from the long haul traffic. Aside from any other reasons, this method needlessly disturbs the basic rate structure and for this reason alone cannot be supported.

50/50 Increase - Horizontal Percentage and Cents per Unit of Traffic:

Fequired would be recovered in part by a herizontal percentage increase and in part by a flat increase in cents per unit of traffic.

This method is the principle of the Bridge
Subsidy but applied to increases rather than to reductions. All rates, regardless of level would first
be treated with the same percentage increase and
then a flat amount per unit of traffic added thereto,
depending upon the balance of the amount of money
required.

cated that an increase of 5 per cent plus 5 cents per 100 pounds was necessary on all rates, a rate of 10 cents would be increased to 15½ cents per 100 pounds, or 55 per cent, 50 cents would be increased to 57½ cents, of 15 per cent; \$1.00 would go to \$1.10 per 100 pounds, or 10 per cent, and a rate of \$2.00 would be increased to \$2.15 per 100 pounds, or 7½ per cent, the amount of the increase becoming progressively smaller percentagewise as the basic rate increases.



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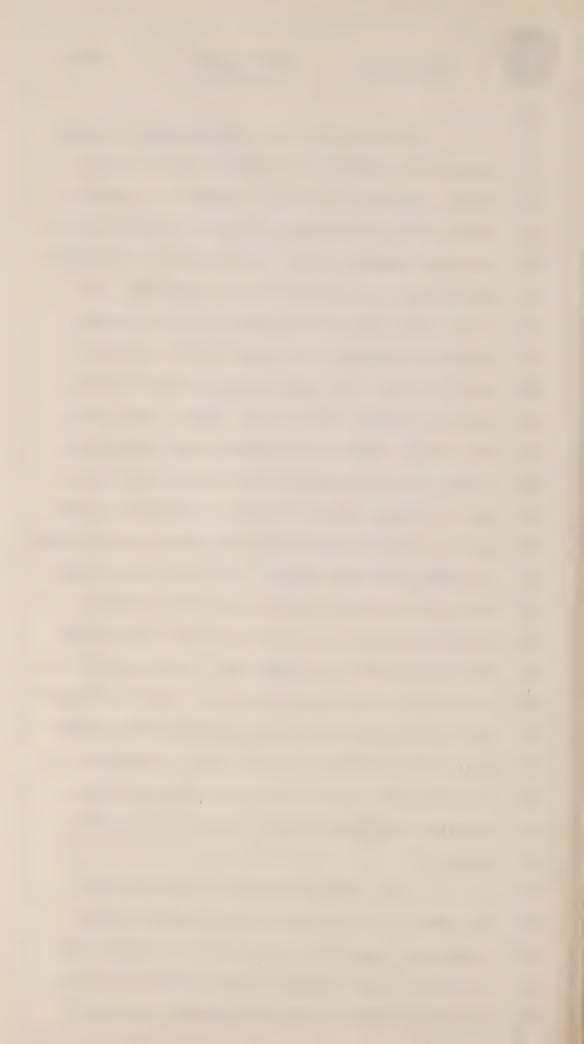
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Basically the 50/50 increase method requires considerable statistical information which is not readily available and would be expensive to compile, It does not give due weight to traffit tharacteristics, value and length of haul. If gradation is introduced, the problems in the method become staggering. Obviously the 50/50 method places more than a proportionate burden on the short haul traffic and on low rated traffic. The impact on this method on heavyloading low rated traffic such as sugar beets, sand and gravel, limestone and numerous other commodities would be such that an increase by this method could not be retained on such traffic. Witnesses on behalf of the Province of Manitoba during the Winnipeg hearings indicated that heavy-loading low rated traffic might have to be exempted, that is, some other method of increase applied. That method was not suggested but the very fact that low rated heavy-loading traffic was to be treated differently than other traffic in regard to increases shows the kind of problems and conflicts " that would necessarily arise Who, for instance, is to decide what traffic is so low rated or so heavyloading as to justify being treated in a different manner.

As I indicated earlier, the 50/50 method was used in the application of the Bridge Subsidy reduction. This was a reduction for traffic moving over the "bridge" between Eastern and Western Canada.

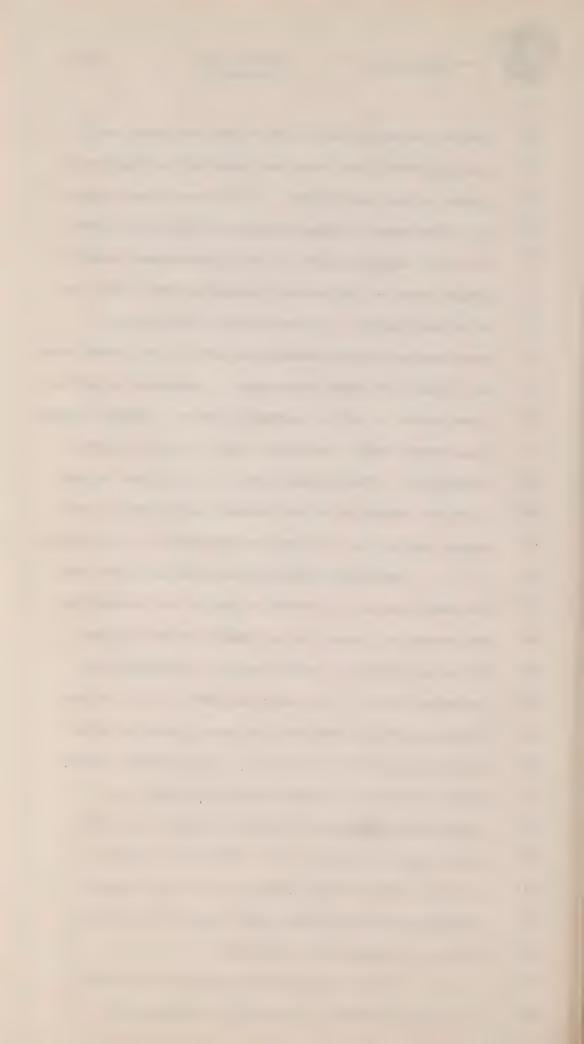
By reducing rates by the 50/50 method a relatively



greater reduction was given to the low rated heavy—
loading commodities than was given to the high rated
light-loading commodities. It is one thing to give
low rated heavy-loading commodities preference when
rates are being reduced; it is quite another thing to
single them out for special treatment when rates are
being increased. In other words, reducing lowrated heavy-loading commodities more by the method does
not bring forth many complaints — everyone is getting
a reduction — but to increase them to a greater degree
than other traffic certainly would bring forth many
complaints. The Bridge Subsidy, by giving a higher
relative reduction on the shorter hauls than on the
longer hauls, has resulted in objections to the subsidy.

The 50/50 method of increase does not meet the tests which I referred to earlier as controlling the method to be applied in general revenue cases. It is not practical and is unfair to shippers and railways alike. As I have indicated, it is unfair to the short haul shipper; it also places an undue burden on low-rated traffic, it unnecessarily brings about conflicts; it would seriously hamper the expeditious handling of general revenue cases and would involve disputes with individual shippers. It would result in the increase not being applied proportionately or evenly, and thus would disturb the basic freight rate structure.

When I discussed flat increase in cents
per unit of traffic, I stated that these were



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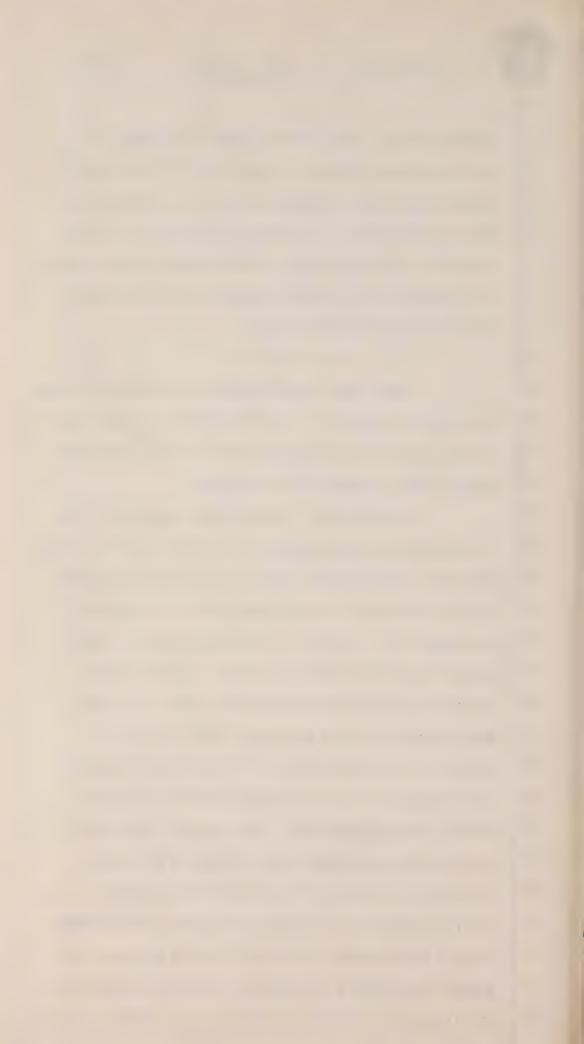
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impracticable. By first applying a percentage increase and then making up 50 per cent of the revenue
required by a flat increase, while not creating as
great a distortion as an increase restricted to flat
increases across the board, nevertheless it does introduce distortions of such a degree as to clearly make
the 50/50 method impracticable.

\* \* \* \* \* \*

I know that the horizontal percentage increase method is not popular. I am convinced that any other method, after it had been applied, would be even less popular with the majority of shippers.

Unfortunately, theoretical conclusions can be reached and indeed practical rate men sometimes find themselves falling into error in appraising the horizontal percentage increase method and in auggesting alternatives. In view of the unpopularity of horizontal increases. Canadian Pacific searched for a practical alternative method that would be fair to shippers and railways alike and which we could present to this Commission. We have not found one. The alternative methods adversely affect low-valued heavy-loading commodities. Many years of practical rates making experience were covered by the group in Canadian Pacific who considered this question. As traffic officers we recognize that there are insistent demands from certain areas and certain shippers, for another method which will result in transferring some of the increase in rates to other areas or shippers. The



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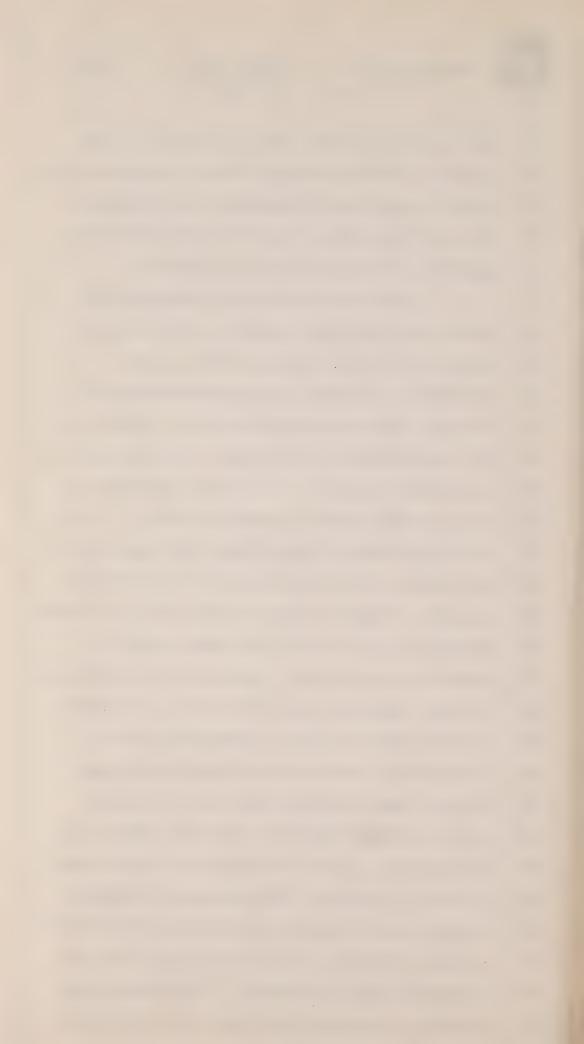
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position of the traffic officer is similar to the position of this Commission in that all shippers in all areas of Canada must be considered and advantages to one area or any shipper over another or action detrimental to the railways must not be approved.

Few subjects in the rail transportation picture have been more thoroughly explored than the method of increases in general revenue cases. Fortunately, in Canada, with two transcontinental railways, considerations which motivate increases in the United States are not present. Canadian Pacific is not an area railroad. It is just as interested in moving maritime traffic as Manitoba traffic. It is just as interested in moving fruit from Ontario or the maritimes as it is in moving fruit from British Columbia. Canadian Pacifit does not favour the lumber shipper of Alberta against the lumber shipper of Ontario or the maritimes. Canadian Pacific realistically meets competition where it finds it. It believes that any method of general increase which can be applied which is not on the horizontal percentage increase method, will adversely affect low rated heavily-loading commodities, short haul shippers and the railways. In this connection, two points should be noted. The first is that horizontal percentage increases can be applied only between the floor of the railways! variable cost and the ceiling of the cost of competing media of transport. The second is that because of increasing competition, the contribution



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which the higher rated traffic has been making in the past to the lower rated traffic is not now possible and low rated traffic must now carry more nearly its proportion of total cost.

I wish to assure the Commission that

Canadian Pacific is supporting the horizontal percentage increase method because it is convinced

that it is the fairest and most equitable method for
shippers and railways alike.



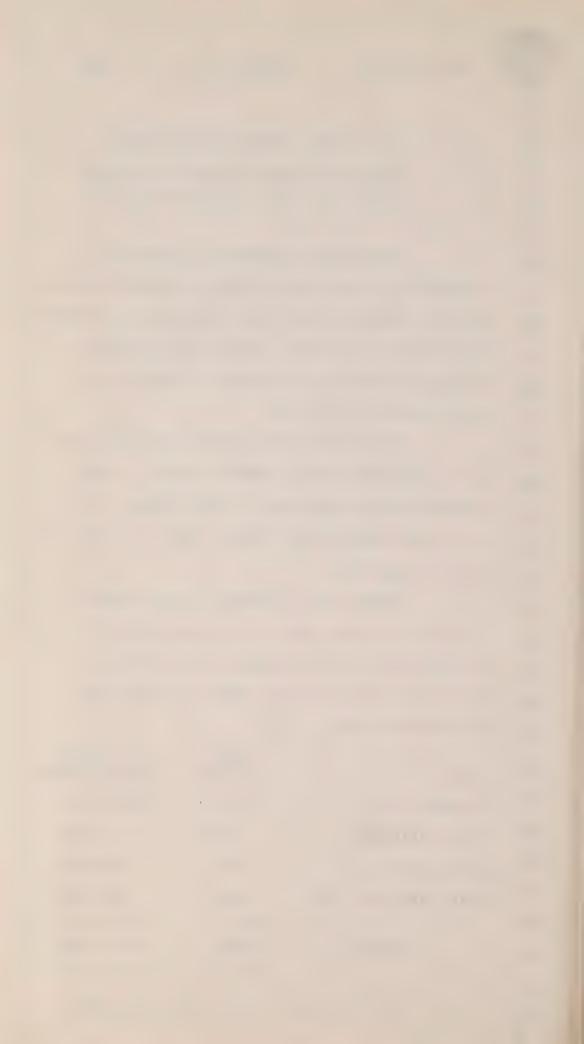
II - OTHER FREIGHT TRAFFIC MATTERS
"AT AND EAST" RATES ON GRAIN FOR EXPORT

During these proceedings a number of references have been made to the "At and East" rates on grain for export. These rates apply from the Georgian Bay ports (Port McNicoll), Midland, Owen Sound and Goderich) to the ports of Montreal, Three Rivers, Quebec and West Saint John.

"At and East" grain traffic does not represent a large movement on Canadian Pagific. Total revenues run from some \$2.75 to \$3.5 million. To ports other than Montreal and West Saint John the movement is very small.

During 1959 "At and East" grain traffic from all of the Bay ports to St. Lawrence River and Maritime Ports via Canadian Pacific totalled 12,656 cars with estimated revenue of \$3,241,700 as indicated below:

Port	Number of Cars	Estimated Gross Revenue
Montreal, Que.	4,302	\$1,080,490
Three Rivers, Que.	136	34,158
Quebec, Que.	991	248,899
West Saint John, N.B.	7,227	1,878,153
Total	12,656	\$3,241,700



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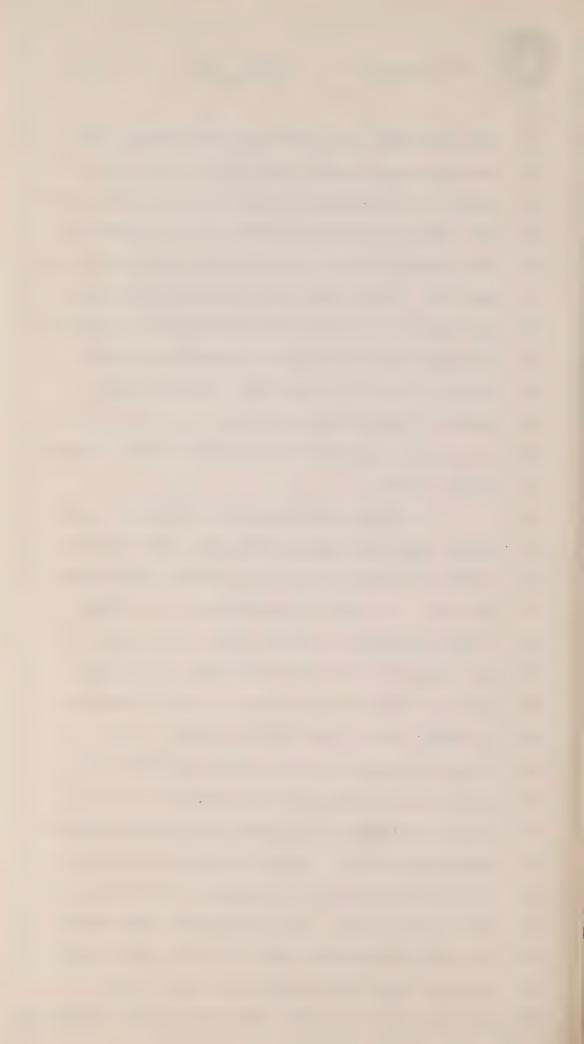
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were maintained on a competitive relationship basis
with the rates on grain from Buffalo to New York.

Because of the mileage from the bay ports to West Saint
John being much higher than from Buffalo to New York,
the revenues per mile on this movement were known to be
very low. It was hoped that increases in the rates
from Buffalo to New York, which were made from time to
time would enable the suspect movements on Canadian
Pacific to be at a proper level. Of course, the
volume of traffic which was suspect was not so great
as to have a significant impact on the overall freight
traffic picture.

In 1959 the United States railroads to meet Seaway competition reduced the grain rates from the United States lake ports to the eastern United States seaboard. In view of this decision of the United States railroads, to further depress these rates, it was obvious that the hope of bringing the low "At and East" grain rates to a proper level by continued increases was not going to be realized. The Canadian railways therefore maintained their rates at the then existing level and determined to make a full investigation as to whether the various movements were compensatory. During Mr. Edsforth's evidence in the fall of 1959, he informed the Commission of this investigation. The investigation showed that the rates to Montreal, Three Rivers and Quebec were making a small contribution over variable costs but that the rate to West Saint John was not compensatory.

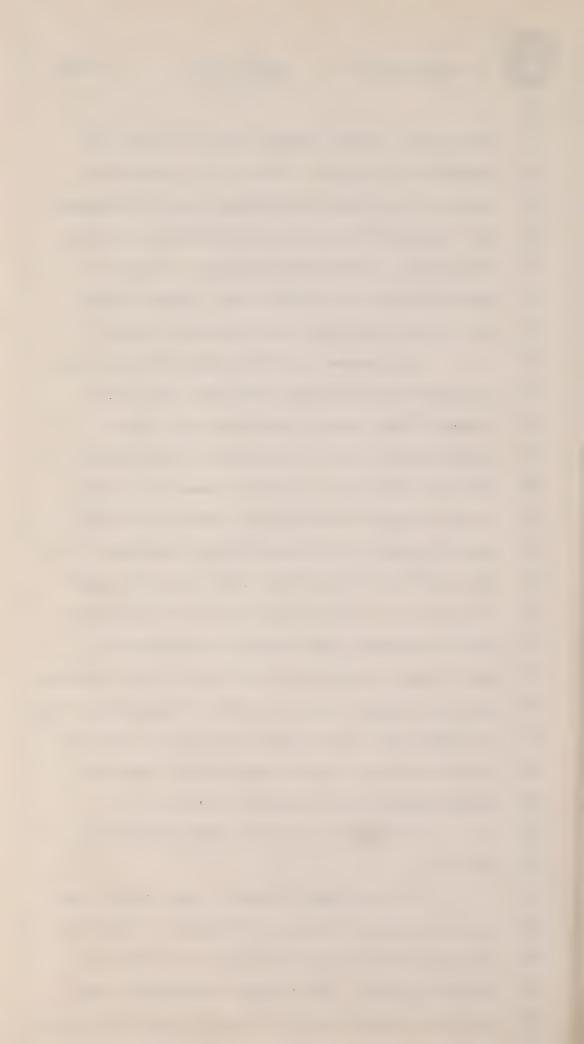


Accordingly, foreign freight traffic officers were instructed to study the rates to all ports and to develop a basis which would assure that all movements were compensatory and weremaking the maximum possible contribution. This matter is being actively progressed and it is anticipated that increased rates will be filed with the Board in the near future.

The changes in the "At and East" grain rates in the postwar period show that these rates can be changed to meet changing conditions and costs of transportation. The action taken by the railways also shows that where competitive conditions result in rates being non-compensatory, appropriate action to put the rates on a proper level is instituted. In the case of the "At and East" grain rates, it might be said that the railways were slow in moving but it must be remembered that changing direumstances up until a year ago indicated that time with the increases which were coming along would meet the situation. When it became clear that this would not be the case, the traffic officers of the railways decided that the problem should be met as soon as possible.

Freight Rate Structure Based on Cost of Service:

As the Commission knows, costs fix the floor under the present freight rate structure. Above that rates are fixed on value of service including competitive factors. The freight rate structure must keep the railways financially sound because the movement



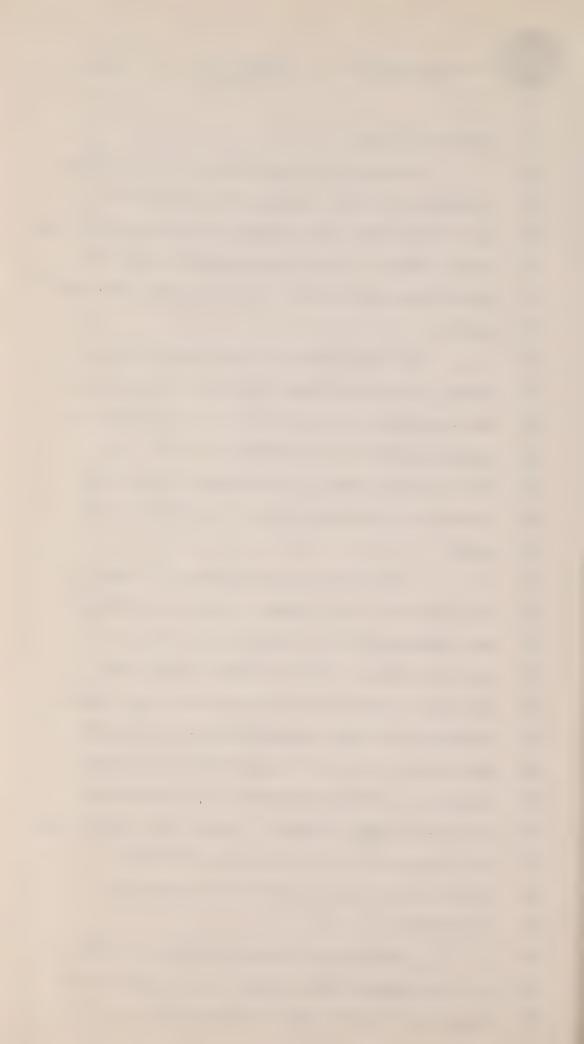
of freight is basic.

practical rate men, whether traffic officers
of industry or of the railways, are reluctant to
depart from a rate making system that they know will work
and has resulted in the free movement of traffic on
financially sound railways, to one that has never been
adopted.

Any basic change in the system of making freight rates such as the abandonment of the value of service principle to that of cost of service must be examined carefully to determine if, in fact, it would serve the needs of shippers and the railways alike better than the system it is intended to displace.

rate making has been proposed in these proceedings by the Saskatoon Board of Trade and the Province of British Columbia. Both of these proposals were advanced by economists without practical rate making experience or without responsibilities to industry or the railways in regard to the movement of freight traffic, or without responsibility for maintaining financially sound railways. No practical traffic man has appeared before the Commission advocating a departure from the value of service concept in rate making.

The proposal that was advanced on behalf of the Saskatoon Board of Trade by Dr. Winch was so rigid that I do not think I need to discuss it. A



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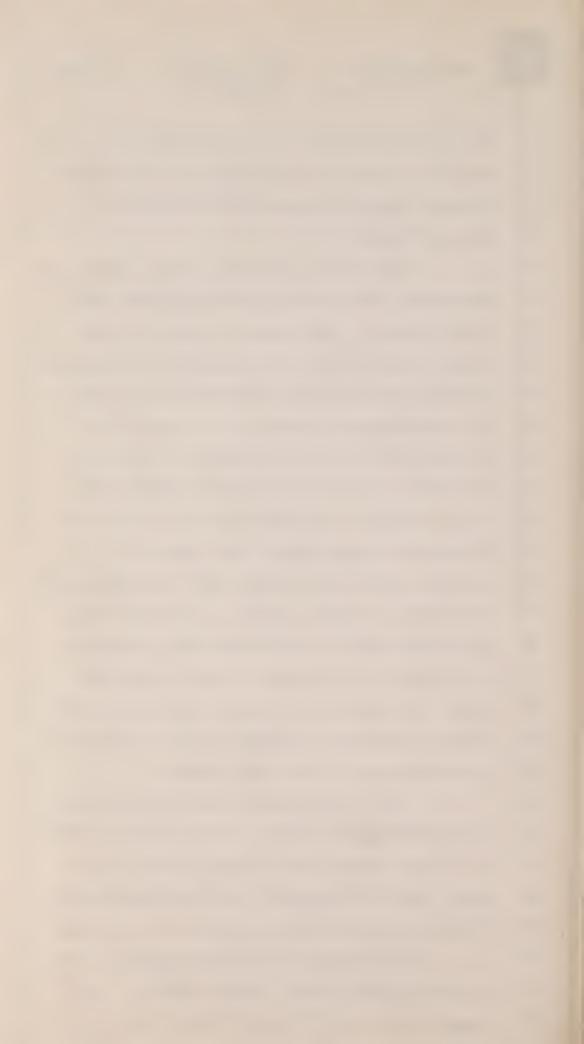
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more complete proposal and one which attempted to meet the deficiencies of the rigid application of a cost oriented system was advanced by the Province of British Columbia.

The proposal of British Columbia which I will discuss was cost oriented but not cost determinant in all aspects. The proposal as advanced in the formal submission of British Columbia was substantially modified during the cross-examination of Dr. Hughes. As I understand the proposal of Dr. Hughes, as it was modified, it gets down to really two proposals. The reason I say this is because Mr. Brazier seems. from a reading of the transcript to have changed the proposal as it was expanded by Dr. Hughes and introduced an absolute ceiling where Dr. Hughes seemed to advocate a flexible ceiling. A proposal with a completely flexible ceiling would enable traffic to move freely and the railways to remain financially sound. The proposal of a cost oriented system with a rigid ceiling would inevitably result in financially unsound railways or a very high ceiling.

Basic to the British Columbia proposal is a distinction between "captive" and "non-captive" traffic. As I stated earlier when discussing general revenue cases, this is a theoetical concept and does not differentiate between traffic movements in any practical way. This of course was recognized implicitly by Dr. Hughes because he defined "captive" traffic. Hughes' definition of "captive" traffic was .



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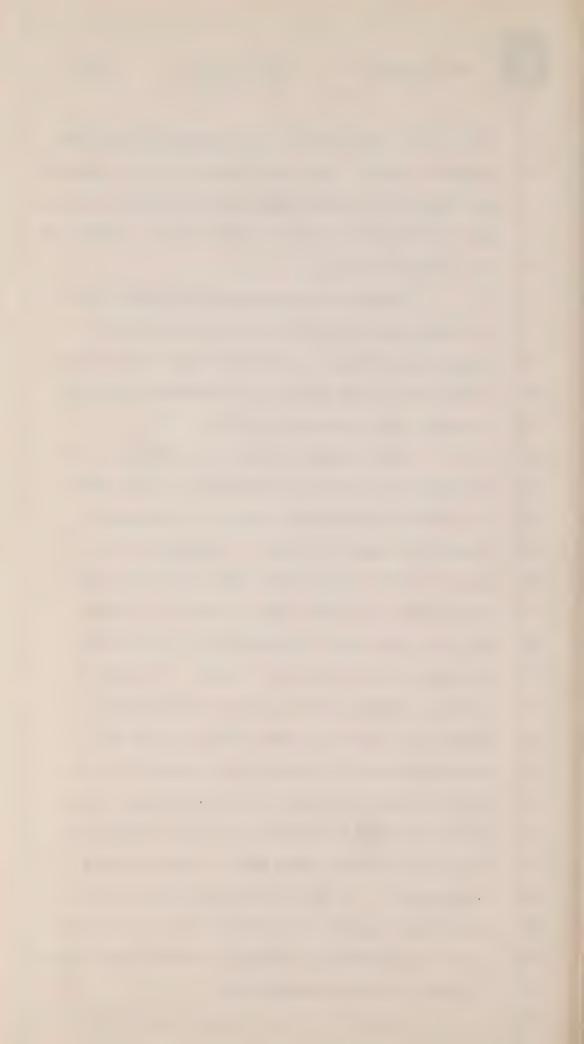
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Under the British Columbia proposal just as

"traffic for which there is no reasonable competition other than rail. This would include carload movements now taking place at non-competitive commodity and class rates as well as traffic for which the only competition was another railway".

During cross-examination Dr. Hughes modified this definition by including market competition, actual or potential, in addition to non-rail carrier competition, as the basis for distinguishing between "captive" and "Non-captive" traffic.

What I wish to draw to the attention of the Commission concerning the definition is that there is no attempt to develop why there is "no reasonable competition other than rail". Obviously, as I stated earlier in my evidence, the reason why there is no competition other than rail may be because of the rate level that the ratiowave have established to allow the traffic to move freely. It seems to me to be a rather unusual definition to suggest traffic is "captive" because the rate is so low that other modes of transport which might carry the traffic are not interested in it at that rate level. Again, it should be noted in Dr. Aughes definition that to be "captive" there must be "no reasonable competition". It seems to me that there could be quite a few disputes as to whether any given set of conditions amounted to "reasonable competition" or not, including service considerations.



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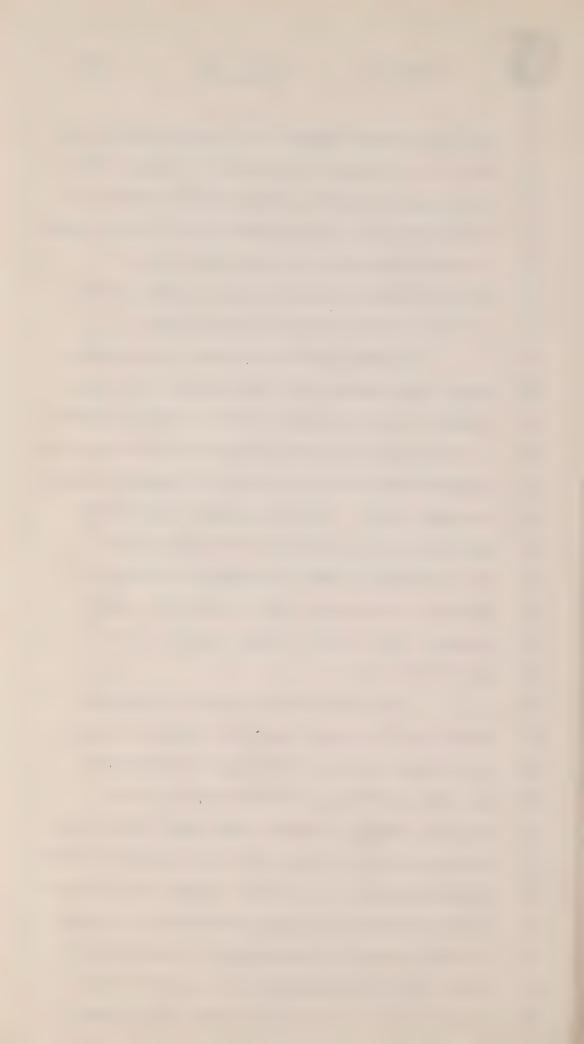
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under the existing freight rate structure value of the goods is to be taken into account in fixing the rate. However, value under the British Columbia proposal is a factor only in so far as value affects cost and value of service only in so far as the rate level of "captive" traffic must be below the maximum so as to allow the traffic in question to move freely.

The basic difference between the existing freight rate structure and that proposed by British Columbia would be the impact on the finantial soundness of railway operations which could flow from the rigidity of maximum rates which could only be changed to reflect increased costs. Under the present freight rate structure the class rates set the maximum which may be charged but these are subject to charge as required to meet revenue needs, which arise from increased costs as well as other factors such as traffic mix.

Under the existing freight rate structure (exclusive of statutory grain mtes; there is complete rate flexibility subject to unjust discrimination and undue preference. The flexibility of the existing freight structure to meet competitive forces, whether carrier or market, is retained under the British Columbia proposal. Dr. Hughes suggestions about unjust discrimination and undue preference are a little difficult for me to follow because he seems to have first taken the position that no one would be concerned about this but later took the position that

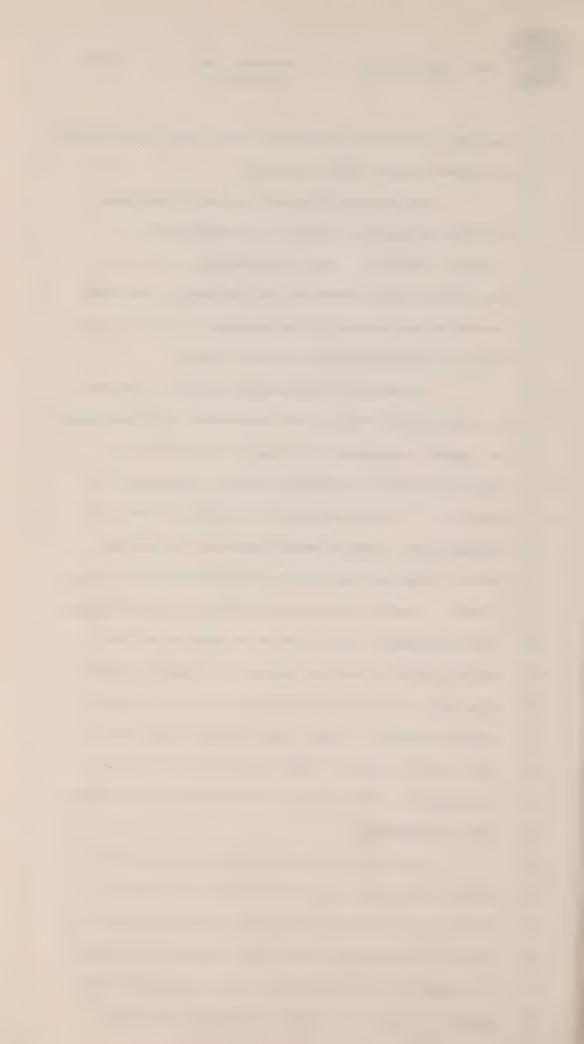


they would have to be operative until such time as the new scheme became fully accepted.

The British Columbia proposal introduces rigidity through the concept of maximum rates on "captive" traffic. What this maximum is to be is the distinction between the two proposals I referred to earlier but basically the maximum is the fully distributed cost plus some additional amount.

In regard to reflecting general increases in costs in the freight rate structure, as I understand Dr. Hughes' proposals this would be handled by adjusting rates in accordance with the increased cost elements. I discussed the difficulties of this in dealing with a cost oriented increase in general revenue cases and there is no need to repeat my views on this. There the British folumbia proposal numerous rate adjustments would have to be made to reflect changed costs in various routes, for example maximum rates would have to be adjusted from time to time to reflect changes in route costs as unit costs vary with traffic volume or when investment in the line was changed. The myriad of changes would be cumbersome and expensive.

under the British Columbia proposal the maximum rates could not be exceeded on "captive" traffic. The maximum rate would be based on the variable cost of handling a given shipment or class of shipments over a given route plus a proportion of constant costs. Dr. Hughes suggested that the



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the volume that would maximize their revenues at rate levels above the maximum, their endeavour would be to show that all such traffic was "non-captive". On the other hand, every shipper whose rates would be above the maximum would be constantly endeavouring to show

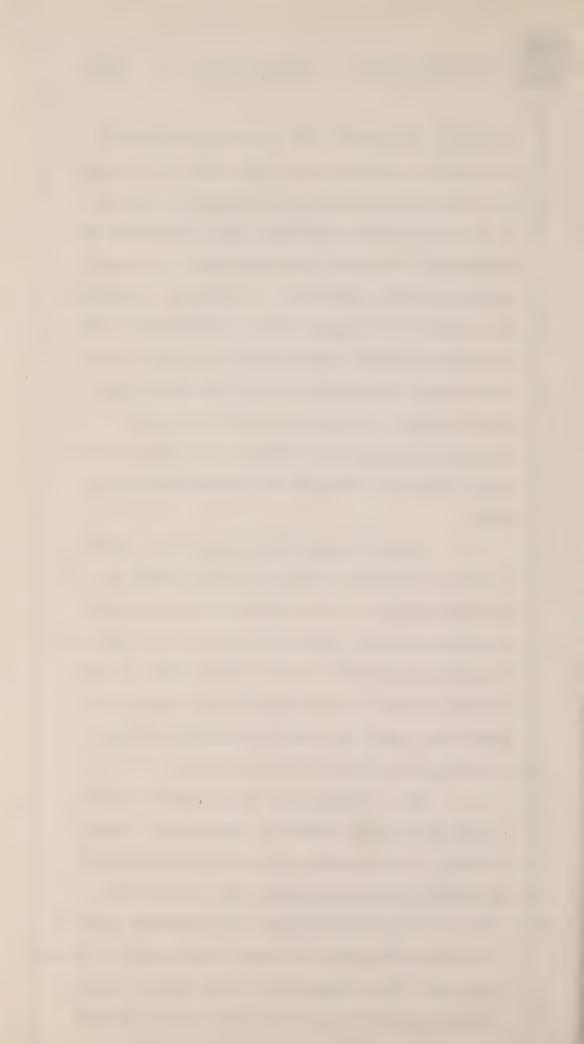
is that there is no maximum on "non-captive" traffic.

Obviously if the railways could secure the traffic in

proportion of constant cost to be applied could be based on the method adopted in the grain cost studies. The Commission will recall this method was taken so as to be conservative and had the result of reducing the proportion of constant costs which would be charged on heavy-loading commodities. I think it is important to note that the constant costs to be allocated under the British Columbia proposal would be on the conservative method the railways used in the grain study. This would give a substantial preference to all heavy-loading commodities without any evidence that all these commodities required this conservative treatment.

It must be noted under the British Columbia proposal the ability of traffic to move freely at a given rate level is to be taken into account only up to the maximum on "captive" traffic, In other words, if normal rated traffic is now moving freely on the railways but the rate nevertheless is substantially above total costs, the rate on such traffic would automatically be reduced to the maximum.

The intriguing part of Dr. Hughes' proposal



that there was no "reasonable competition". As a result of this, I am sure there would be numerous cases before the Board of Transport Commissioners and I am sure there would be a lot more work done by cost analysts, accountants, lawyers, as well as traffic men. Certainly the administration of the freight rate system would be much more expensive than it is now and this extra cost will have to be borne by shippers in the final analysis.

The British Columbia proposal recognizes

to some degree what is called "differential pricing".

The proposal would provide for cross subsidization

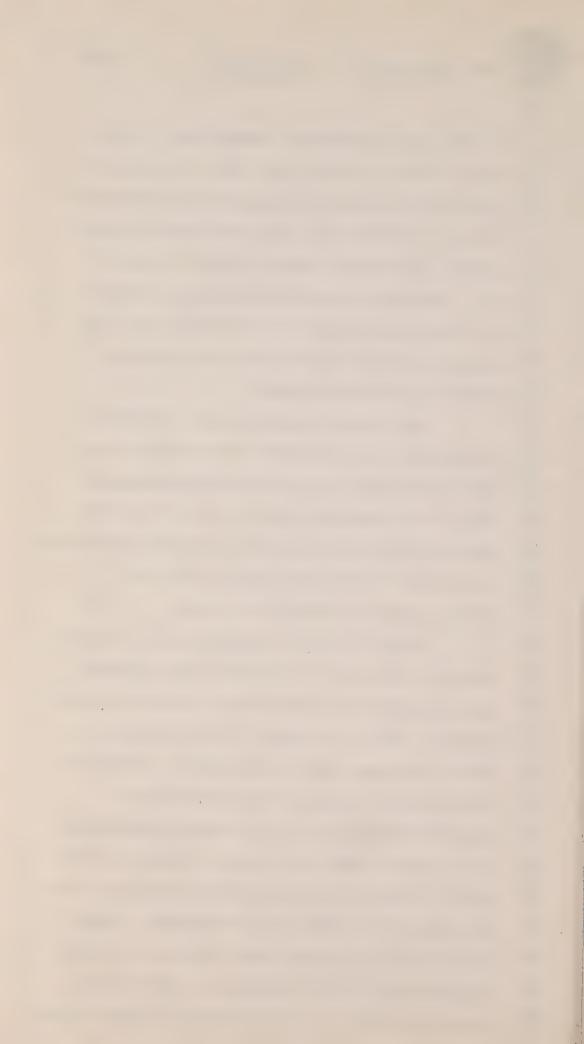
through some competitive traffic and some "captive"

traffic moving at more than total costs thus contributing

to the short-fall on competitive or "captive"

traffic moving at less than total costs.

Under the British Columbia proposal value of service as reflected in the Freight Classification would continue to be operative for the majority of the traffic. This is so because on the "non-captive" traffic no maximum would be applicable. Competitive rates and agreed charges reflect the rates of competing carriers who use the railway Classification as the basis of their rate making. Value of service is also a factor in the level of commodity rates which are instituted to meet market competition. Value of service in rate making under the British Columbia proposal would only be discarded for normal rated traffic which would be deemed "captive" because railway



rates were low in relation to cost of competing modes of transport. This would apply only when value of service considerations would enable "captive" traffic to move freely at a rate in excess of the maximum, but for the rigidity imposed by the maximum.

If the reason for advancing the cost oriented basis of the freight rate system as proposed by British Columbia was because value of service is outmoded, it is rather surprising to find that practically all of the traffic would still have this element as a most important factor in determining the rate level.

It is clear under the British Columbia proposal that if two railways are competing between points A and B and the traffic is "captive", the maximum rate will be the maximum applicable to the low cost carrier. On the other hand, if "captive" traffic is not subject to rail competition the maximum between two given points could be that of the high cost rail carrier.

Under the Canadian freight rate structure,
while the Board does give some consideration to

Canadian National total costs, Canadian Pacific total
costs have determined the general freight rate level.

This notwithstanding the fact that at such a rate
level Canadian National has not earned anywhere mear
reasonable rail earnings in the light of the investment in that system, and in most years have been faced
with substantial deficits.



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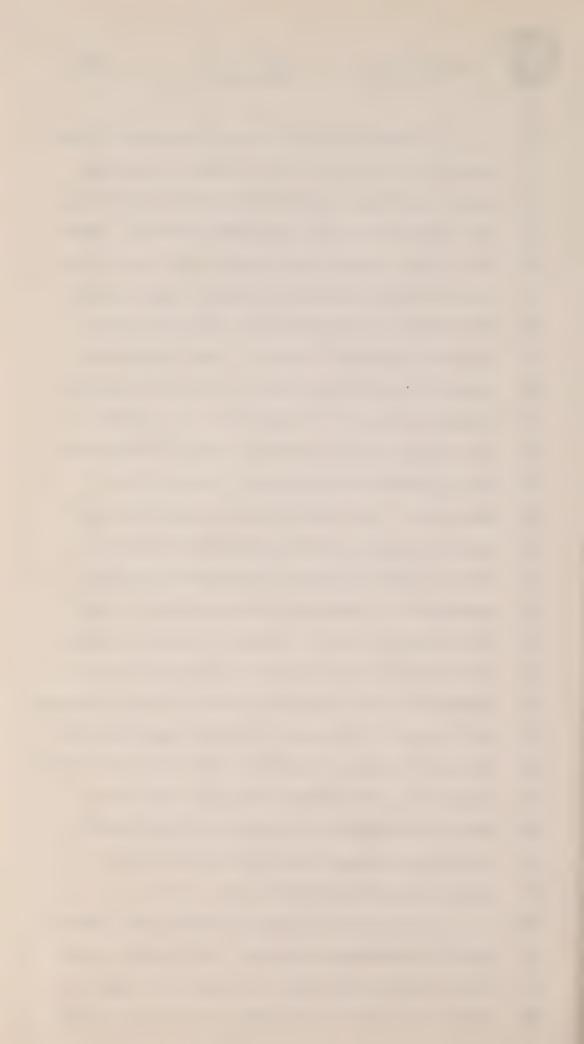
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Under the British Columbia proposal the same commodity moving on the same rallway, the same distance, could have a higher maximum rate in instances where there was no rail competition involved. Under the existing freight rate structure this cannot occur because the same commodity moving for equal distance and assuming the same weight can only differ where there are competitive factors. Under the British Columbia proposal equalization of class and commodity mileage scales would be impossible. In view of the strong advocacy by British Columbia for equalization in the past, this reversal is difficult to understand. The present proposal could well have results similar to what has happened in the past where a province advocated something that appeared advantageous in theory but the application of which later created concern. I have in mind the advocacy of Manitoba for equalization that resulted in the elimination of the constructive mileage between Winnipeg and the Head of the Lakes. Another example was the advocacy of British Columbia for removal of the mountain differential, the practical effect of which was to substantially increase the lumber and fruit rates from British Columbia which created problems to shippers requiring individual rate action. The British Columbia proposal would create a

number of anomalous situations. For example, in one

area it could be held that the traffic is "captive"

on the basis that "no reasonable competition" exists.



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Under the British Columbia proposal, if it was 30

Therefore the rate could not exceed the maximum. In another area where the same traffic is moving the same distance it could be that the traffic would be held in that area to be "non-paptive" because there was "reasonable competition" therefore the maximum would not apply. If the rate of the "reasonable competition" was higher than the maximum rate set for the railways the same traffic moving on the railway would bear a higher rate where it was "non-captive" than where it was "captive".

Leaving aside for the moment the question of the flexibility of the maximum which would be applicable on "captive" traffic and which I will discuss later, I would like to summarize the main points as I understand them under the British Columbia proposal and consider how these differ, if differ they do, from rate making under the existing freight rate structure:

(a) All freight rates would have the variable cost of handling the traffic as a minimum.

the existing freight rate structure in this regard

in only one respect. Under the existing freight rate

structure all freight rates must be just and reason-

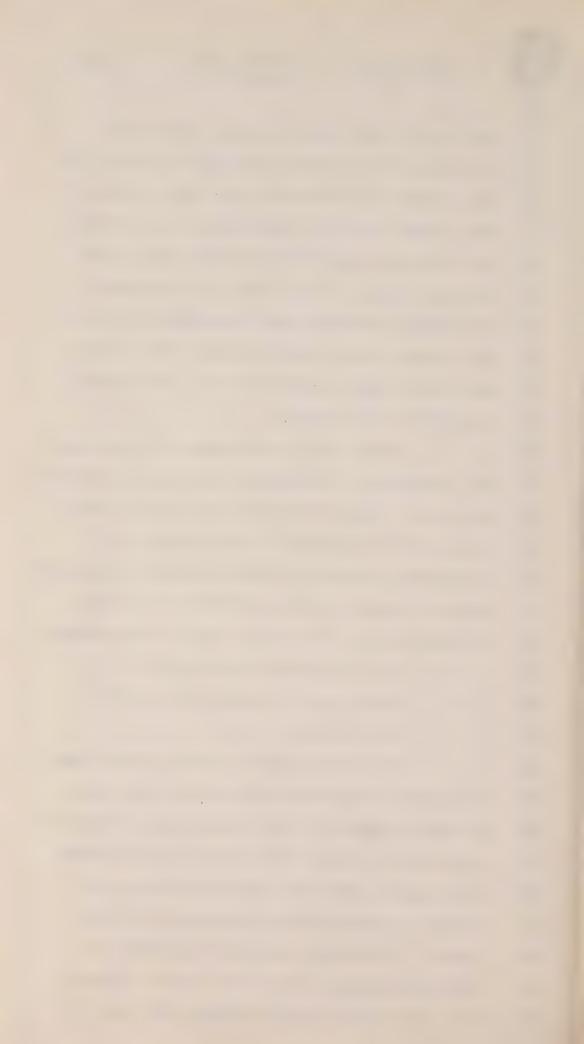
able excepting that this is not applicable in the

movement of grain to export positions in Western

Canada. A just and reasonable freight rate is

one thathas variable cost as the floor or minimum.

The British Colukbia proposal differs from



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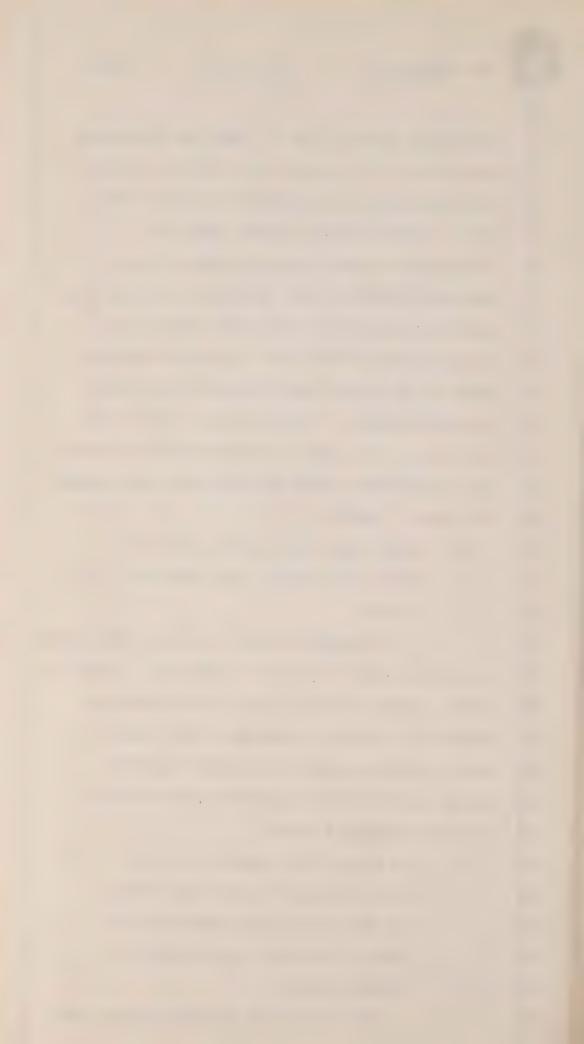
must be basic to the entire rate structure, grain rates would have to be treated as all other rates. However, British Columbia did not take this position but proposed that grain rates to export positions in Western Canada be excepted and that they remain statutory with the difference between the statutory rates and the level they would otherwise occupy in the freight rate structure to be covered by national subsidy. Presumably the level of the export grain rates under the British Columbia proposal would be fixed on a basis consistent with that adopted for "captive" traffic.

(b) Where competitive factors exist rail rates would reflect such competitive factors.

A competitive factor could be either actual or potential carrier or market competition. Under the British Columbia proposal as well as the existing freight rate structure competitive rates, agreed charges, specific commodity rates and commodity mileage scales based on competitive factors would continue just as at present.

(c) The value of the commodity and its ability to bear transportation charges and move freely would govern the rate level of "captive" traffic subject to maximum rates.

Under the British Columbia proposal there



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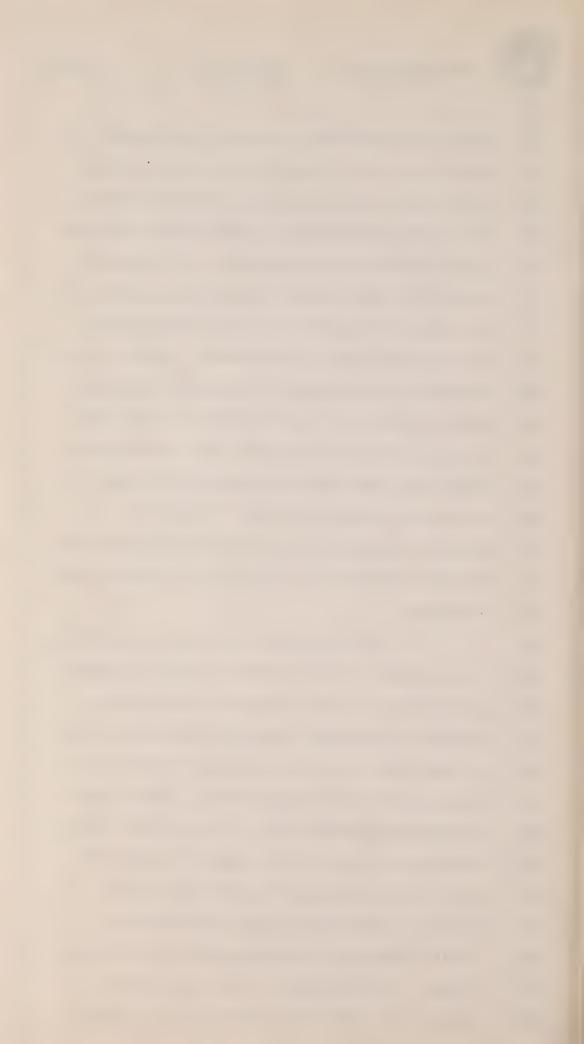
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would be no established ceiling on "non-captive" traffic but just as at present the ceiling would be the cost of competing modes of transportation or the ability of the traffic to bear the rate and meet market competition at destination. For "captive" traffic under the British Columbia system there would be a fixed ceiling which would be some percentage over the total cost of the movement. Under the present system the ceiling is the equalized class rate scale. Under the British Columbia proposal there could be varying ceilings while under the existing freight rate structure the ceiling is the same west of the maritime territory. Under the British Columbia proposal the basing arbitraries over Montreal for traffic to and from the maritimes would disappear.

It can therefore be seen that the result of the British Columbia proposal would be a freight rate structure largely the same as the existing freight rate structure in the final analysis. True it would start out on a somewhat more rigid principle because of the maximum rates. However, the necessity of allowing traffic to move freely would determine the rate level of "captive" traffic and the ceiling of maximum rates would have to be flexible or the railways would not be able to remain financially sound and provide the necessary service. If the British Columbia proposal was adopted the freight rate structure would be much



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more complex and much more expensive to administer without serving the needs of shippers and railways alike any better than the system now in effect.

Earlier I stated the British Columbia proposals introduced rigidity through the concept of maximum rates. It may be said that there is no distinction between the maximum rates under the British Columbia proposal and the class rates which are now in the freight rate structure. Leaving aside the fact that the class rates are equalized and under the British Columbia proposal the maximum rates would not be, this is true if the maximum rates are to be adjusted from time to time as revenue reeds require. The factors that were to be taken into account in determining the maximum seemed to be the distinction between the two proposals. This is an important point in my view. If the ceiling rates were to be adjusted from time to time as revenue needs require as Dr. Hughes seemed to suggest, then any short-fall in the railways revenues because of change in traffic mix, the introduction of competition after the fixing of the maximum or the reduction of rates to allow traffic to move freely, would be reflected by changes in the maximum rates. However, if the maximum rates once fixed were only to be increased as costs increase, which seems to be the proposal as explained by Mr. Brazier, then the maximum rates once fixed could not be changed to reflect changes in traffic mix, introduction of competition after

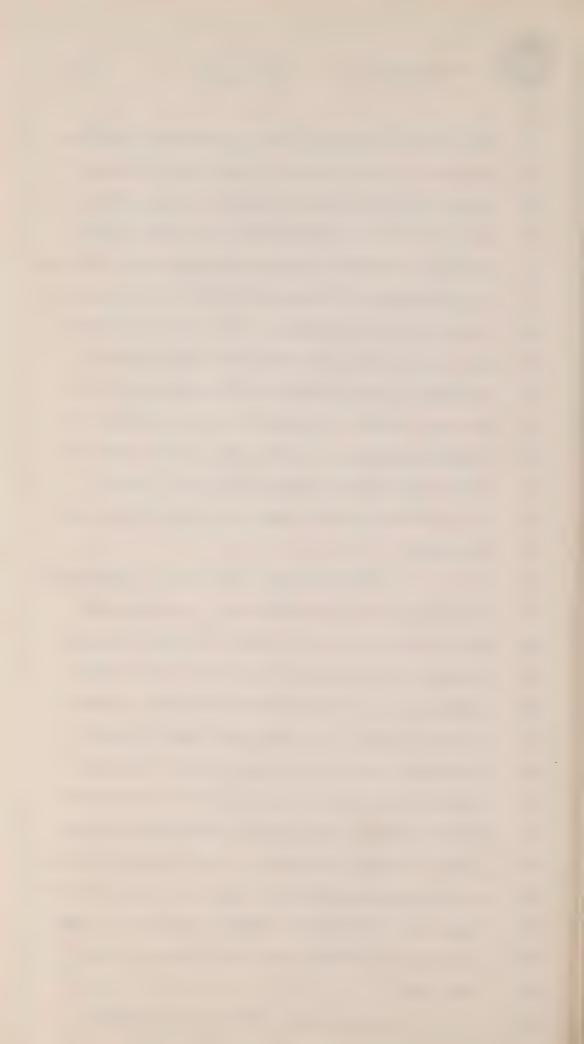


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the maximum rates were fixed or subsequent reduction of rates to enable traffic to move freely because of changed conditions in an industry. I am unable to understand how the Board of Transper Commissioners would ever be able to fix maximum rates which were only to be adjusted for changing rosts and not to take into account changing conditions unless the maximum rates were set at such a high level that they would be completely unrealistic and would be there only to take into account all possible future variations and changed conditions. If this were done we would be back, even under Mr. Brazier's proposal, to the situation as it exists under the present freight rate structure.

I should point out that basic to our freight rate making under the Railway Act. (leaving aside the movement of grain to export positions in Western Canada) rates are changed and altered as changing conditions or cost of transportation may from time to time require. If under the British Columbia system the law is to be changed so that rates may only be changed or altered as cost of transportation may from time to time require and no effect is to be given to changing conditions, then obviously the Board, in fixing the maximum rates, has to anticipate for the future the effect of all changing conditions. This would require maximum rates to be fixed at a very high level.

In reading and listening to economists



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discuss pricing of transportation from time to time I have come to the conclusion that they believe that railway pricing under the value of service principle is not modern and cannot be used to meet the changed circumstances under which rail transportation now lives. This is completely wrong. Costing of traffic movements has for many years been actively used in rate making by Canadian Pacific traffic officers. To say that shippers do not know railway costs is certainly correct and why the railways should be required to inform buyers of treit costs to inform competitors of their costs, or to become involved in compilation of numerous statistics so as to provide information to persons other than those directly responsible for railway net revenues. I have never been able to understand. I know of no other business, regulated or non-regulated that is required to be cost oriented to the degree proposed by British Columbia.

and market analysts or its staff. The Research

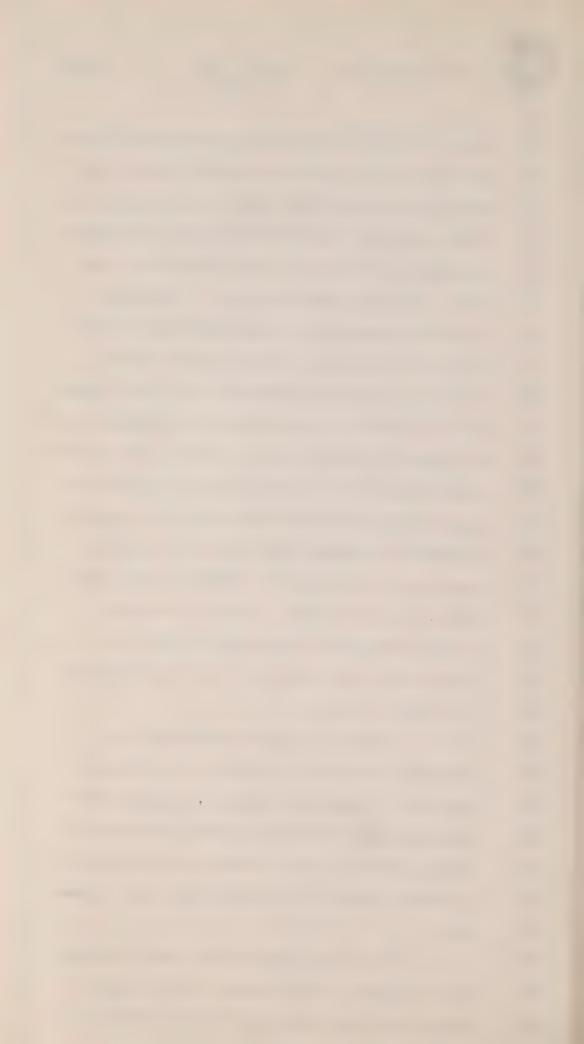
Department of Canadian Pacific is concerned with

developing new techniques, including new modes of

handling traffic for the purpose of reducing costs.

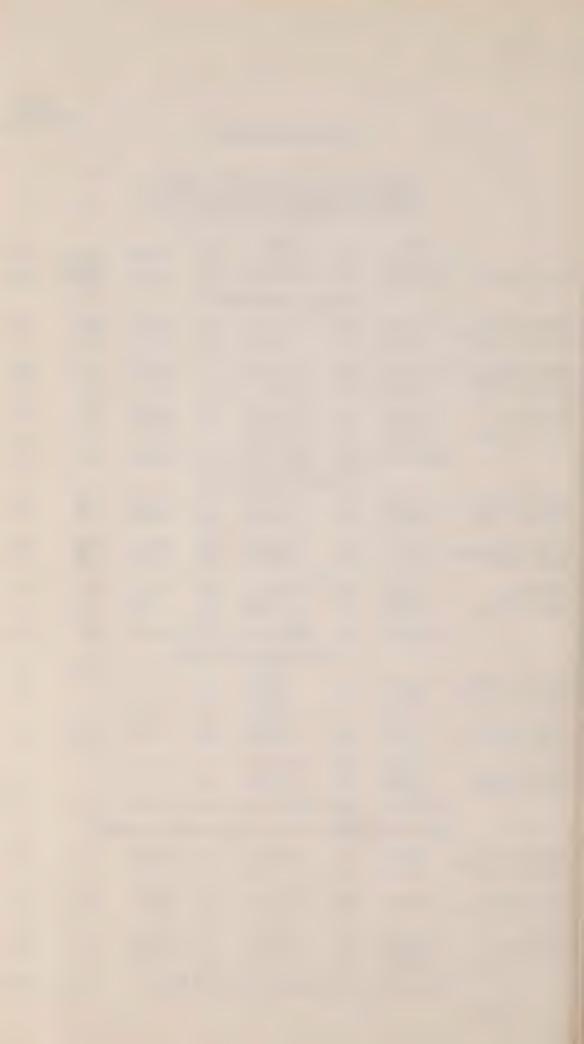
It also is active in developing better cost information.

That the railways are not rigid in their pricing methods is quite evident from the many changes that have taken place in the concepts of



rate making in the past few years, all of them designed to meet new conditions. Incentive loading is one factor which is designed both to meet competitive conditions and also to take advantage of the lower unit costs associated with heavier loadings. This is only one example; there are many others such as Agreed Charge rates, Railway owned trailer on flat car service, broadened mixing privileges, and as time goes on other changes and techniques will be developed.

The existing freight rate structure is quite capable of introducing pricing methods that will enable the railways to meet new conditions. Care must be taken that a lot of statistical information is not produced which while it may be interesting is not required for rate-making purposes. The developing of a great mass of cost data is expensive. Unnecessary republishing of tariffs is also expensive. The rate structure today is flexible in meeting the requirements of shippers and at the same time, has an element of stability which is essential for the railways and shippers alike.



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MR. SINCLAIR: Mr. Roberts, please answer my friends.

MR. COOPER: Mr. Chairman, before I start
my examination of Mr. Roberts, I wonder if you wish me
to make any announcement with respect to the length
of the present sittings of the Commission and sittings
in November?

THE CHAIRMAN: Yes, I wish you would.

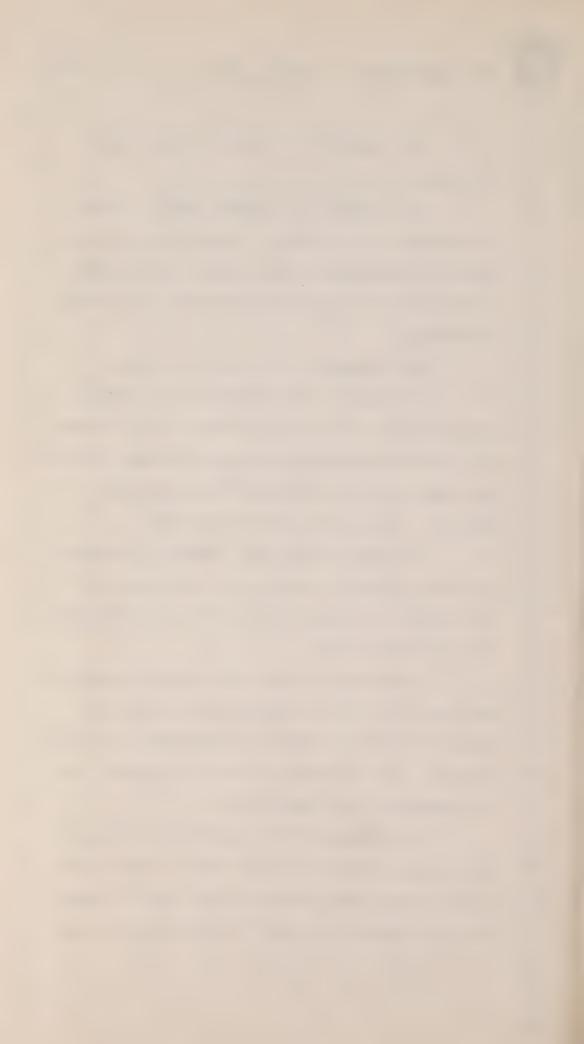
MR. COOPER: The Commission will continue its present sittings until the submissions of the railways filed with the Commission on or about September 15 have been heard and cross-examination thereon has been completed. The Commission will then recess.

Its next sittings will commence on November

7 with the evidence in chief of the cost experts for
the provinces of Manitoba and Alberta and for the grain
marketing organizations.

On November 14, the cost conference which the Commission has already directed should be held will commence in Montreal under the chairmanship of Dr. D.E. Armstrong, Dean of Commerce at McGill University, and the Commission's cost consultants.

The rulings of the Commission with respect to the cost conference and the conditions under which it will be held and conducted will be found in volume 80 of the transcript at page 14070 and following pages.



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## CROSS-EXAMINATION BY MR. COOPER:

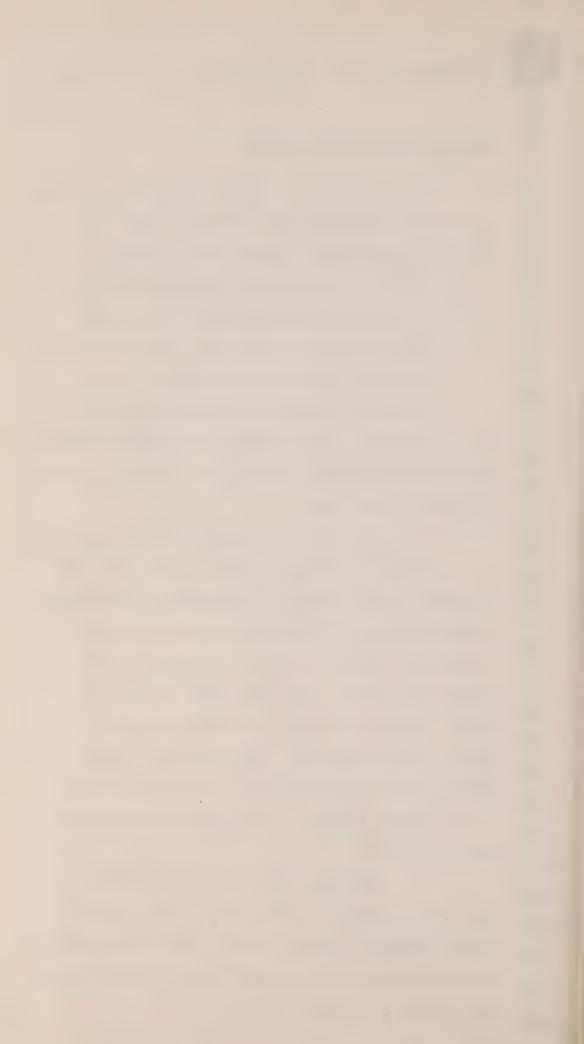
Mr. Roberts, I direct your attention first to the first paragraph of your submission and to the following sentence which occurs in the paragraph:

> "As Mr. Crump stated to this Commission, notwithstanding the growth in other media of transport, railways still provide the most efficient and economical method of moving freight by land over substantial distances." Would you just explain to the Commission what

you mean by substantial distances, Mr. koberts to n you by mileage figures there?

A. Well, I do not think that you can generalize in a situation like this, you have to examine the type of traffic you are handling. For instance, such things as sand and gravel, a long hard for sand and grave, a substantial distance, would be 200 miles. lumber, for instance, could move 1000 miles to 1500 miles. You have to examine the commodity you are dealing with specifically. You could as an overall measure, I think, take anything that would be in manuss of the general average of our trefile which would be 400 to 500 miles.

Q. Therefore, when you use the expression substantial distances you are using it with relation to the particular commodity which is being to imported and with relation to the average length of nau or long haul of that particular commodity.



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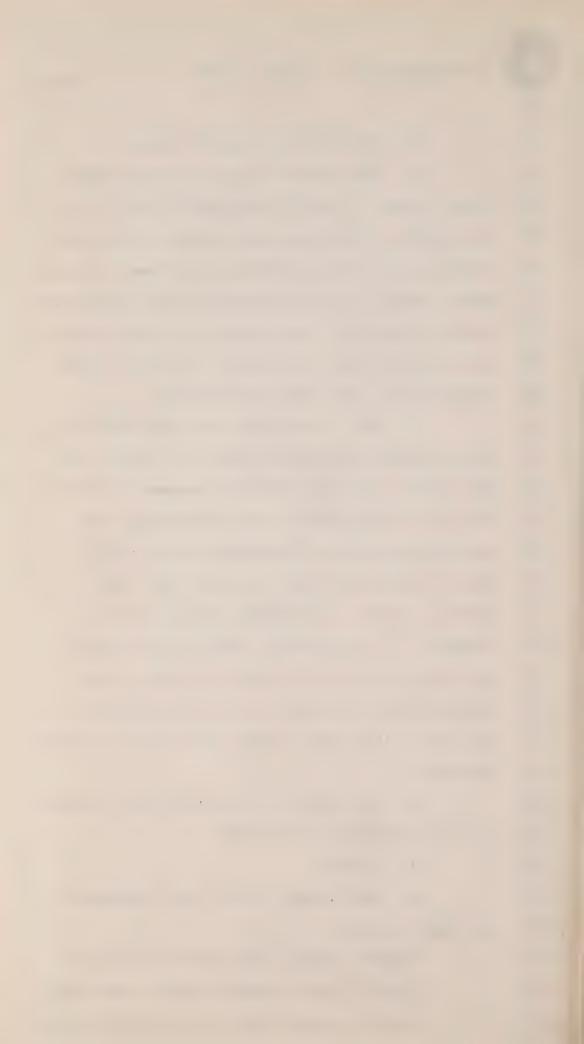
A. That is what we have to examine.

Q. There appeared to me to be an inference in the sentence which I have read that the rule of the railways in the future must, because of the growth of other media of transportation, be confined to moving general freight for such distances and that the railways future in short haul traffic because of truck competition is, to say the least, very doubtful. Is that a proper inference to be drawn from that statement?

A. Well, I would not like to say that the Canadian Pacific Railways was going to go out of short haul traffic. We have, as you know because it has been mentioned in the course of these proceedings, these merchandise services of ours which were set up in British Columbia, the pilot operation which will gradually extend all over Canada. We will meet situations, in my estimation, through the use of our own trailer on flat car services so I would not say Canadian Pacific is going to go out of any traffic. We are going to stay right in there with the use of improved techniques.

- Q. Well, you do not intend any such inference by the sentence which I have read?
  - A. No, sir.
- Q. Now, on page 2 in the first paragraph of that page you state:

"General revenue cases therefore arise when there has been a marked change in wage levels, material prices, income taxes or cost of money."



Have there been any general revenue cases, Mr. Roberts, where a change in the cost of money has been a significant factor?

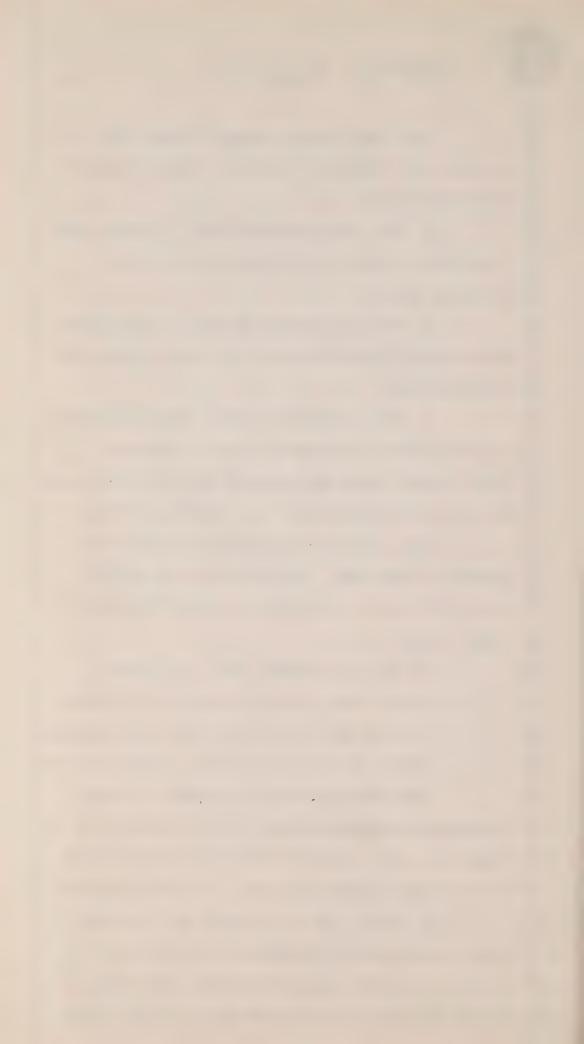
- A. Well, not to my knowledge. I imagine that it has been a factor in some cases but not in any particular one case.
- Q. The main factors, at least in the general revenue cases, have been rises in the cost of wages and material prices?
- A. Well, wages and material prices but another significant factor has been the rise in income tax. I think in 1947, income tax was about 35% and at the present time it is 50% so that would be an important factor.
- Q. On Page 3 you have an expression in the second paragraph on that page, "insofar as law and traffic conditions permit". The sentence in which that phrase occurs is this:

"It must be remembered that in a general revenue case, the application of the railways is for authority to increase all rates equitably insofar as the law and traffic conditions permit."

That phrase reoccurs in a number of places throughout your submission and for the information of the Commission I wish you would state just what you had in mind in speaking there of the law, just those two words.

A. Well, "the law" would be the statutory rates on grain which by law may not be increased.

Secondly, of course, our agreed charges, contracts because they have a twelve month period to run so they



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A. Well, no sir. We have to treat all our

must also be included under that category.

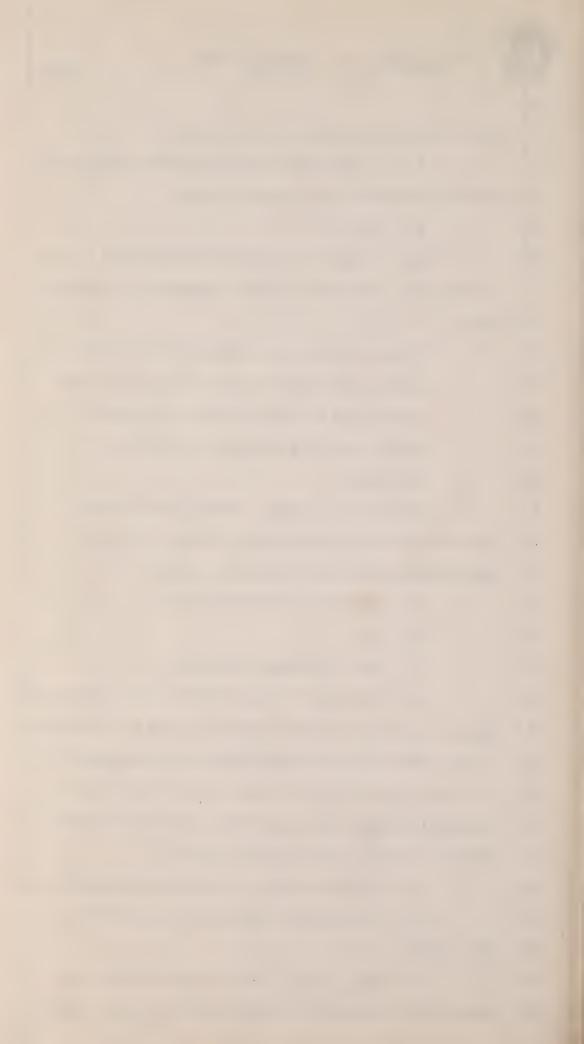
- Q. So, therefore, you mean by that expression statutory grain rates and agreed charges?
  - A. Yes, sir.
- On page 6 there is an item to which I wish to refer you. The first complete paragraph on that page reads:

"Other factors which influence rate levels include the extent to which competition from other forms of transportation for market competition from outside the country are prevalent."

My question is this: does not the domestic market competition influence rate levels as well as market competition from outside the country?

- A. Domestic market competition?
- Q. Yes.
- A. That is between industries?
- Q. Well, what I mean is this: if a manufacturer wishes to get into a certain market so that he may compete in that market with other manufacturers selling there, is not his desire to get in taken account of by the railways in giving him a competitive rate or an agreed charge or setting a rate for his traffic?
  - A. We are speaking of two Canadian manufacturers?
- Q. Two Canadian manufacturers going into the same market.

shippers alike, and the exception would be in the case of



competition where you had to meet carrier competition but in the general rate level all shippers are treated alike.

Q. Well, suppose you had a shipper east of Montreal trying to get in the Montreal market and compete with a shipper who is getting into the Montreal market from a point west of Montreal. Is the fact, the desire of that shipper to get into the Montreal market and the necessity for him to get there if he is going to stay in business a factor in making a freight rate with that manufacturer by negotiation?

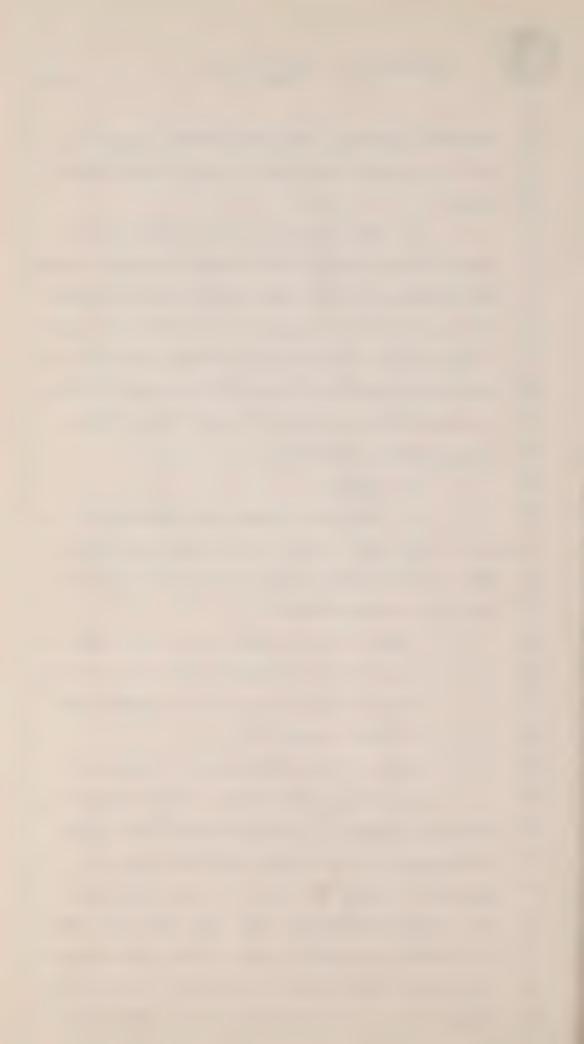
A. No, sir.

Q. The reason I asked this question and I am dwelling on it a bit, is that I do not quite understand what you say on page 16 right at the top of the page where you find these words:

"That is, a rate which has had to be made on a relatively low basis in order to permit the traffic to move or to enable a manufacturer to find a market ---"

Now, am I misunderstanding something here?

A. No, sir, not at all. In that particular sentence, of course, you are dealing with such things as extremely low rate on sand and gravel which are necessary to enable the traffic to move. Vegetables from southern Alberta move under lower than class rate level which is provided for them in the classification. Fruit from British Columbia -- sulphur -- these are all things that you have to establish a rate level which



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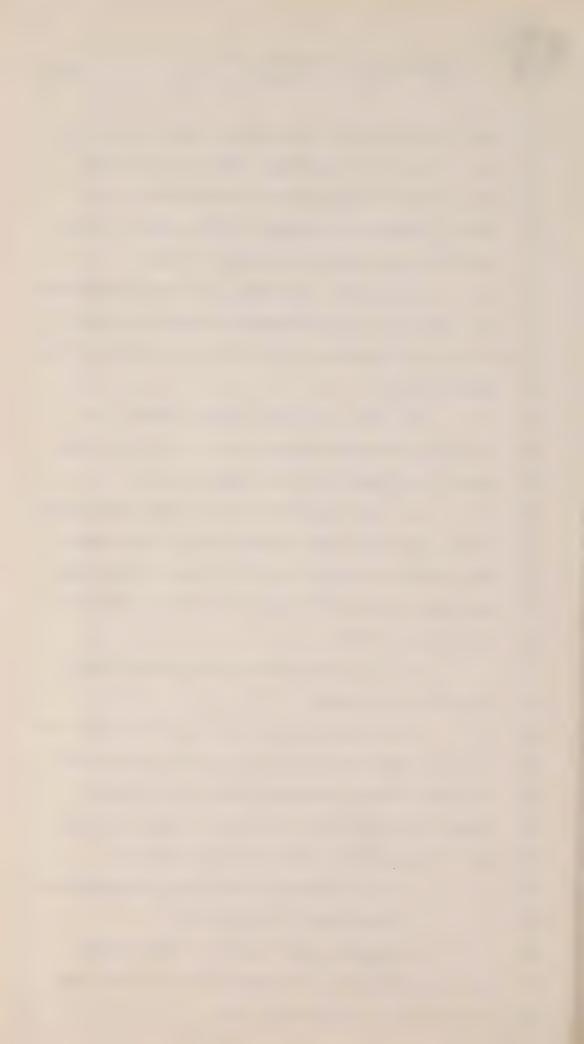
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after negotiation over the years has been arrived at. and is found to be necessary. These are all things that have been negotiated with the shippers of the product and with the railways and we arrive at a basis with them which enables the traffic to move.

- Q. And the fact that a particular manufacturer must compete in a certain domestic market in order to survive has no influence at all in making a rate for the manufacturer?
  - A. Well, sir, then you would have to get involved in wages and the wage level at which one man operates as compared with the other --- power ---
- Q. Just confining it to freight rates without getting into these other things, what you are saying is no account is taken at all in fixing a freight rate for a manufacturer with competition which he must meet in a domestic market?
- A. Not from another Canadian manufacturer, all things being equal.
- Q. Now when you go along to page 7 you set out a certain number of tests of the method to be applied in general revenue cases and there are four tests lettered (a) to (d) and extending from page 7 through the following page 8. Now, your first test is:

"It must create the least possible disturbance to the basic rate structure."

Of course, that test must be made on the assumption that there is nothing wrong with the basic rate structure at the present time.



Now, stopping th

A. Well, as I say it must be deemed just and reasonable until it is proved otherwise so we must say it is just and reasonable.

Q. So, the first test is purely -- not purely -- is formally set on the assumption and expressed on the assumption that the basic rate structure at the present time is entirely satisfactory?

A. Yes, sir.

Q. Just a small point, Mr. Roberts. Under the third test which is lettered (c) you have a sentence there:

"It must recognize the forces of competition."

You mean there the forces of carrier competition?

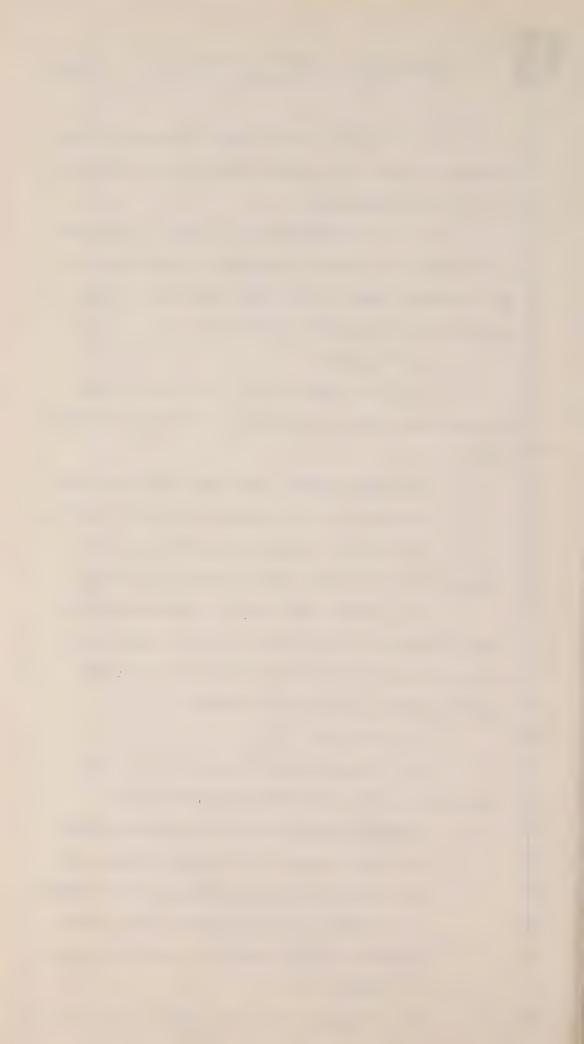
- A. Yes, sir, carrier competition and, of course, market competition from outside the country.
- Q. Similarly when you use the expression in other places you are referring to carrier competition and competition from outside markets and when I say outside markets I mean foreign markets?

A. Yes, sir.

Q. On page 8 I am not quite clear on the test that you have there which is lettered (d):

"While changes in cost of transportation are the basic reasons for a general revenue case, the method to be used should not be an attempt to associate the increased cost with the cost involved in the movement of individual segments of traffic."

Now, stopping there for a moment, why is not in



burden of increased costs?

made
fact an attempt/to associate the increased cost with the
cost involved in the movement of individual segments of
traffic the fairest method of applying the burden of
increased costs in so far as shippers are concerned? I
am talking now as a matter of principle rather than method.
In principle is not that the fairest way to impose the

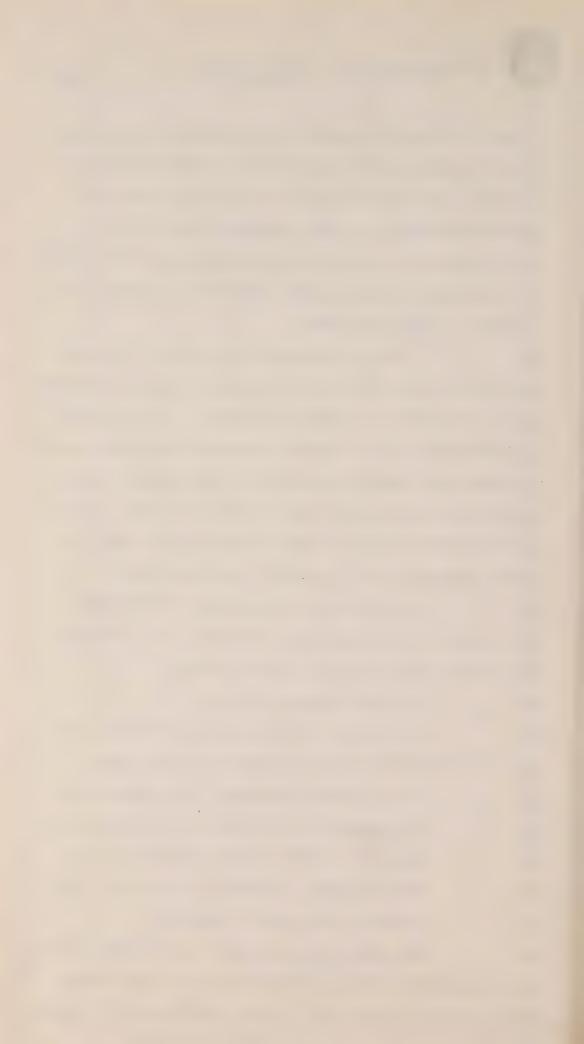
A. Well, I think we must go back to the rate structure itself and the rate structure itself is developed to move traffic. It does not reflect -- it is not cost determinant, it is a value of services taking into account competition considerations and for that reason if you are applying the increased basis of cost, well then -- it is an extremely sensitive structure and you just upset it and impede the flow of traffic, in my estimation.

- Q. Is what you are saying, the freight rate structure is based on value of services and, therefore increases must be made on the same basis?
  - A. Proportionately, yes, sir.
- Q. On page 9 you have a paragraph there, the second paragraph the first sentence of which reads:

"If, as has been proposed to the Commission, the Canadian freight rate structure were to be revised to be more directly related to cost than at present, although not solely so, the situation would still be complex."

That sentence implies that the Canadian freight rate structure today is related to cost in some degree.

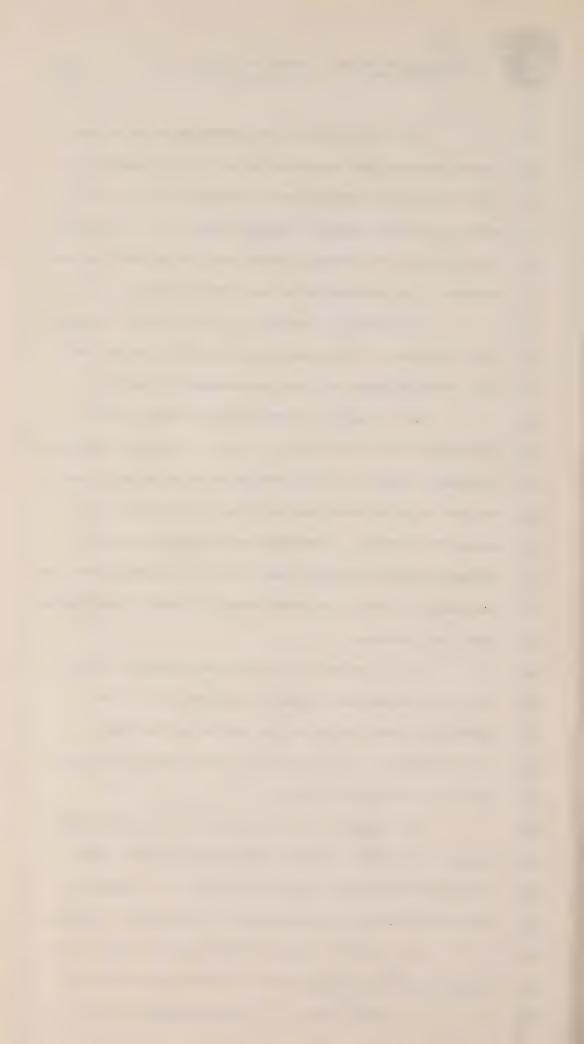
Now, would you just poir out the degree which the freight rate structure at present is related to cost?



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A. Well, insofar as competitive rates and agreed charges are concerned we certainly examine our costs before we finalize any contracts or put in any rates so to that extent I suppose they are. I suppose you could say the overall rate level is related to cost because it is predicated on our requirements.

- Q. Would it be true to say that the freight rate structure is more and more trending towards the cost becoming more and more cost-oriented today?
- A. I would not say it is becoming costoriented, what I would say is this: certainly competition
  is growing, and as I said before we examine our costs
  but the value of services is still reflected in our
  competitive rates. Certainly our competitors have
  worked on that principle too, they get the rate that is
  necessary to move a maximum volume of traffic and maximize
  their net revenue.
- Q. I am anticipating some questions which I was going to ask you later but perhaps this is a convenient point to raise the matter of the cost investigation. Do you make your cost study before you put in a competitive rate?
  - A. Well, of course, there are certain bench marks we examine. We also have certain basic cost information which is supplied to us by our research department when we are examining a particular movement.
  - Q. Is that information supplied to you with respect to every competitive rate which you publish?
    - A. Well, no sir. This is certain basic



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information we have in our day to day workings and dealings with. We examine the situation in respect of the flow of traffic, the particular traffic we are handling and it is basic, of course, if we are not satisfied we go to the research department and ask them to give us a final figure.

Q. The basic information you have is information that you had accumulated in your own department through experience?

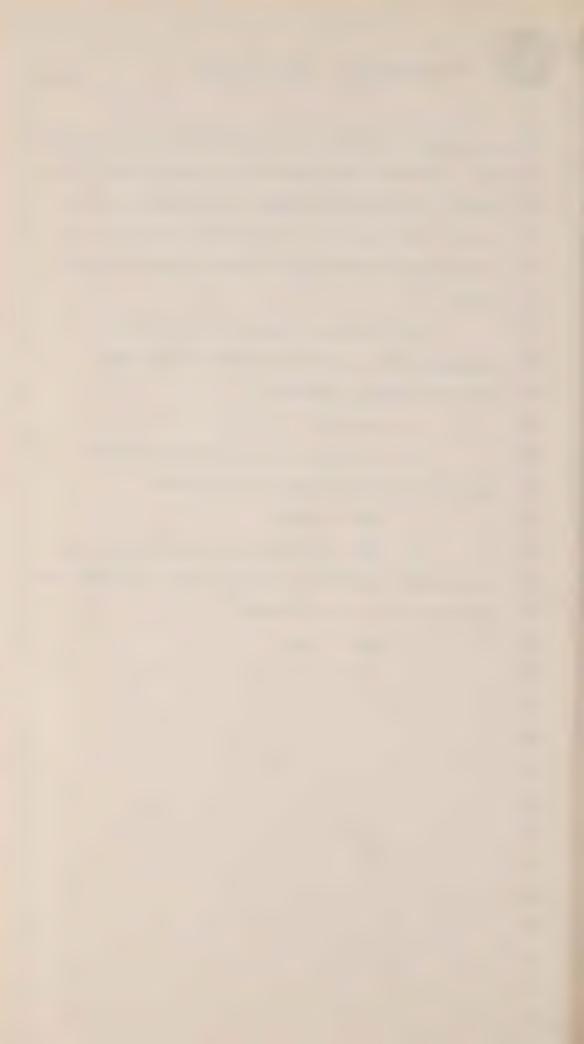
A. Yes, sir.

Q. And certain basic information which is supplied to you by the research department?

A. That is right.

Q. And, if you come to a situation where you are not quite sure you go to the research department and ask them to look into it further?

A. That is right.



- A. Can you give the Commission any idea of how many references with respect to competitive rates by percentage you would make to your Research Department for further and detailed information?
- A. I am sorry, I could not. They vary.

  We get a little flurry, and we may be after them for

  two or three in a day. Of course, this is only

  speaking of myself, and I might have one in a week or

  three in a day. But then, of course, the facilities

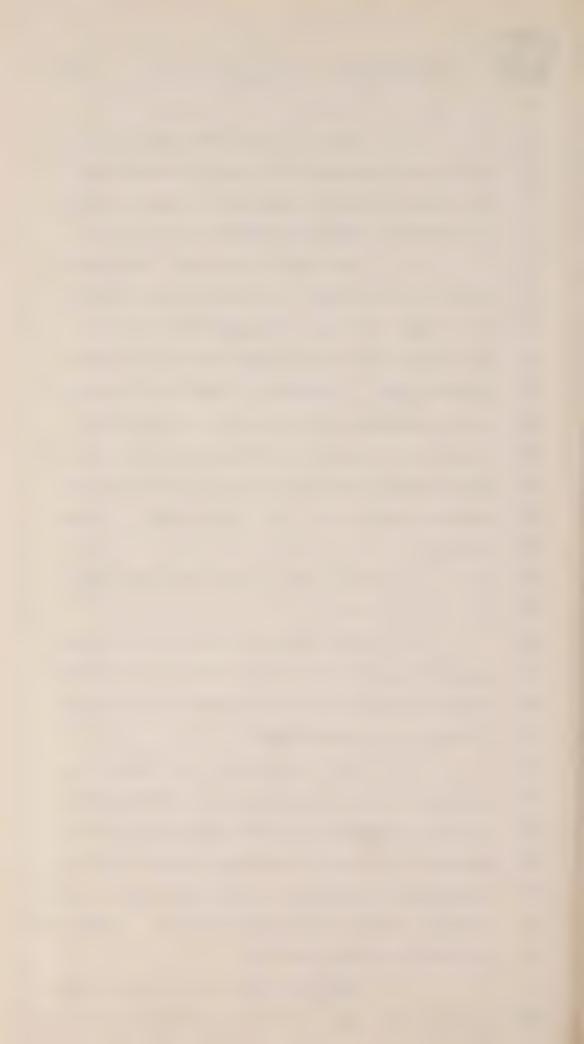
  of the department are used by the freight traffic

  manager, who has direct jurisdiction wer rates for the

  system, and by the various offices in Winnipeg and

  Vancouver, and so on. So, I really don't -- I could

  not put ---
  - Q. You could not put a percentage on it?
  - A. No.
- Q. All I am trying to do in this line of questioning, Mr. Roberts, is to determine the extent to which costing is carried out before rates are published by the railways today?
- A. Well, to the extent, sir, that it is necessary in evaluating competitive situations that we have to meet, and, as I say, sometimes it is not necessary after having satisfied ourselves that the composition is such and so, and we know that the contribution is good and we publish the rate. Other times we have to go further than that.
- Q. Would it be fair to say there are more and more rates being costed in the railways day to day



work?

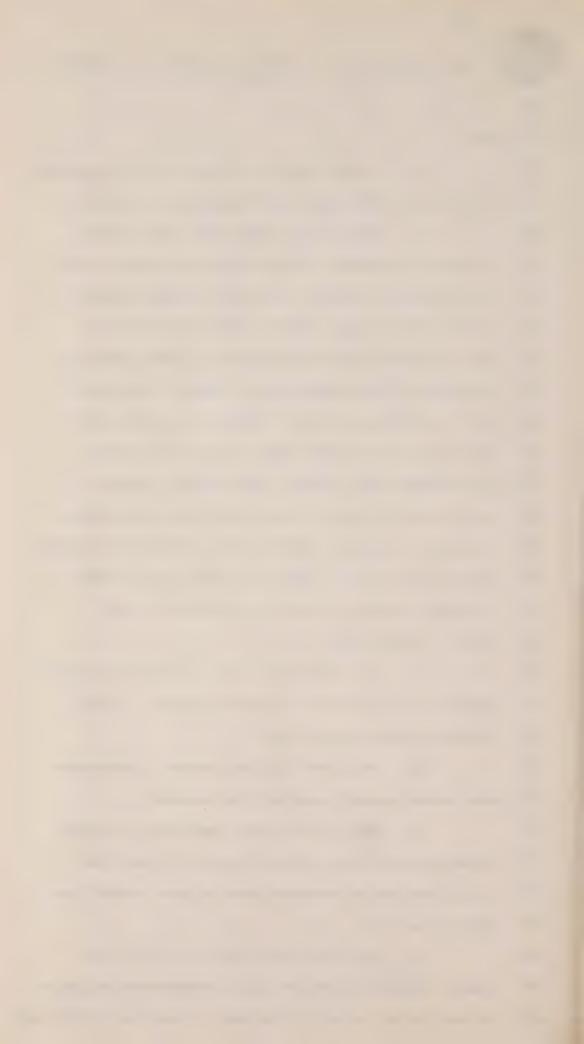
ANGUS, STONEHOUSE & CO. LTD. TORONTO, ONTARIO

- A. I would say that becase our costing methods are becoming better; they are becoming more refined.
- Q. Well, may I leave that and refer you to the same paragraph on page 9 where you mentioned the so-called captive traffic under the British Columbia proposal, and you say, "In the case of so-called 'captive' traffic under the British Columbia proposal, the measure of the rate would be limited to the full cost as a ceiling, that is, variable cost plus a full contribution to constant costs except under certain circumstances when a higher rate could be charged."

  I must confess I have had some difficulty determining the maxima for captive traffic under the British Columbia proposal, and I felt I might get some light on this if I asked you what you meant by the words "under certain circumstances"?
- A. As I understand, sir, the British Columbia proposal is not confined to constant costs. It is something over constant costs.
- Q. Well, what are the certain circumstances under which constant costs will be exceeded?
- A. Well, traffic that would move freely at a rate something over constant costs, but under the ceiling that may be proposed which is some further level higher than that.
- Q. You merely mean that in the British

  Columbia proposal there are some circumstances for which

  you can't point as set out anywhere one, two, three, four?



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A. No, sir.

Q. But, nevertheless, there are certain circumstances where the fully distributed costs will be exceeded as maxima in the case of captive traffic?

A. That is my understanding.

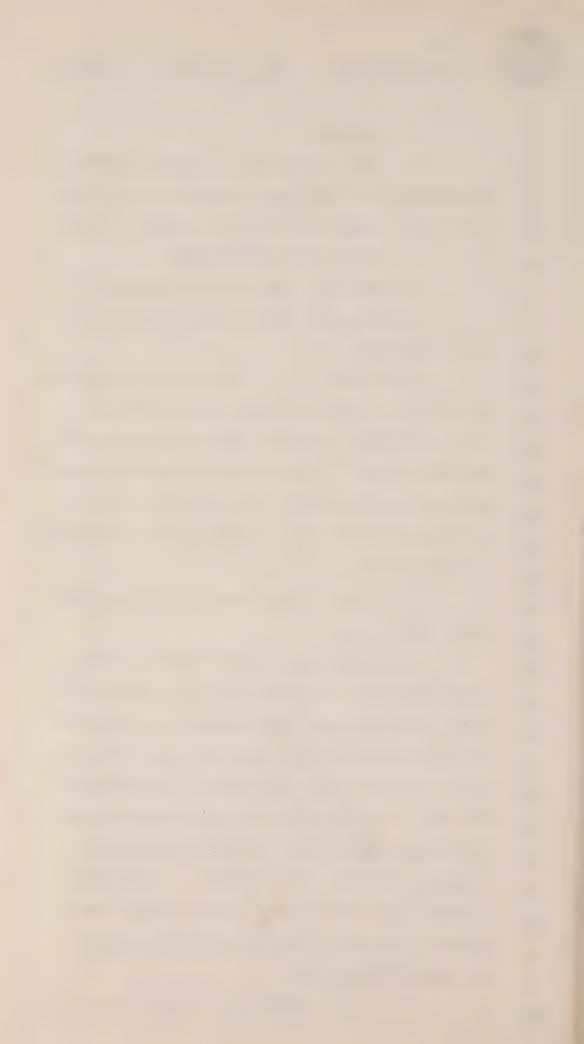
MR. BRAZIER: That is our generosity.

MR. SINCLAIR: Well, I can understand any-body's confusion.

MR. COOPER: Q. When you are dealing with this subject of captive and non-captive traffic and so on throughout the rest of page 9 and on page 10 and part of page 11, have you direct reference to the British Columbia proposal? Is this one section of your submission where you are dealing with the British Columbia proposal?

A. Yes, sir, this plus the section at the back of Part II, yes.

- Q. That being so, Mr. Roberts, I have a little difficulty in following the last paragraph on page 9, which is this, "Even assuming that all of the so-called captive traffic could pay full costs and still continue to move freely, which is certainly not the case, it would follow that a cost-oriented method of applying a general rate increase would fall unevenly on the entire rate structure." As I understand it, under the British Columbia proposal there would be no general rate increases; there would be no general revenue cases?
  - A. Well, we would have to have recourse to



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27 maxima would be increased and you would apply your 28 increases to that captive traffic in so far as you

possibly could do so and, at the same time, apply

increases to non-competitive traffic which in any

- recover increases in costs even under the British Columbia proposal.
- Exactly, but not by way of general increases and not by way of general rate increases; am I right in my understanding of that or not?
- You could not recover your costs without increasing the rates.
- Q. But you could recover your costs by selective increases rather than by a general rate increase?
- A. You mean selectively -- the sort of revenue that we have had to recover - selective increases?
  - Q. Yes, under the British Columbia proposal?
- So, you would increase the cost of transportation of one fellow? Your basic structure is cost-oriented, and then you start out on that premise, and then you have an increase in costs, so you increase the cost of one fellow and leave the other fellow alone?

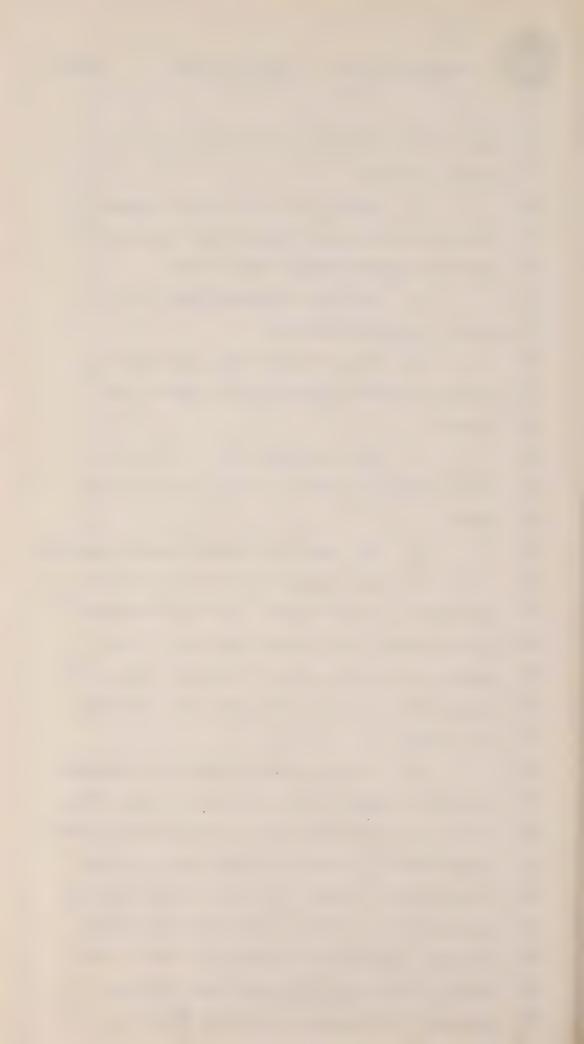
the British Columbia proposal, you would apprise the !

costing section of the Board of Transport Commissioners

to that effect, you would establish that your costs

had gone up with respect to captive traffic, and your

A. As your costs increase, as I understand



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MR. COOPER: Q. All I want to do is to

event is left free, but there would be no general revenue cases?

- A. As we know them now.
- Q. As we know them now. Now, what has puzzled me is that this paragraph commencing "Even assuming . . . " appears to contemplate under the British Columbia proposal general revenue cases when, in fact, there will be none?

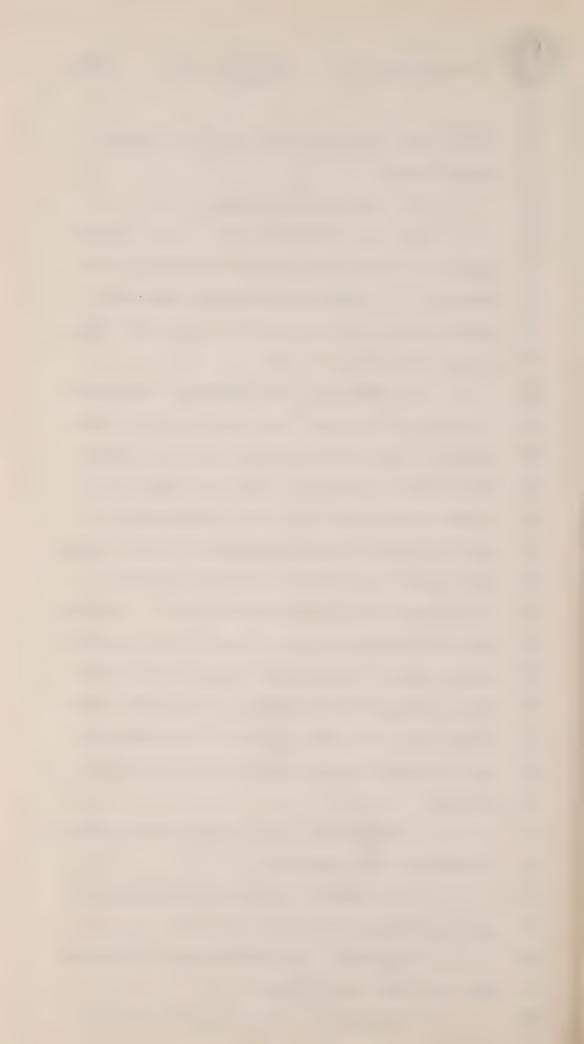
MR. SINCLAIR: Mr. Chairman, I don't want to argue with my friend, but I would on the evidence interpret the proposal of British Columbia somewhat differently. I would say there would have to be general revenue cases to fix the feiling and then also to justify the authorizations in advance, because that you don't want to have your rates suspended.

So, the result would be exactly the same. It may be theoretical today we would not want to have a general revenue case. We could file the tariffs and let them be suspended independently, but we know we don't do that, and similarly, it would be my submission as to what will happen under the British Columbia proposal.

THE CHAIRMAN: The witness believes this is a necessary evil, apparently.

MR. SINCLAIR: General revenue cases are time-consuming and difficult, yes, sir.

MR. MAURO: Of course, some of us disagree with the "evil" part of that.



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understand what Mr. Roberts is saying, and I think I have got to the point where he is assuming that under the British Columbia proposal there will be general revenue cases. Perhaps there will and perhaps there will not, but my understanding of the proposal was that there would not be such cases, but having gone to the point where I understand what Mr. Roberts is saying in that paragraph, then I will leave the matter to my friends to develop, if they wish to do so.

MR. BRAZIER: Your understanding is correct.

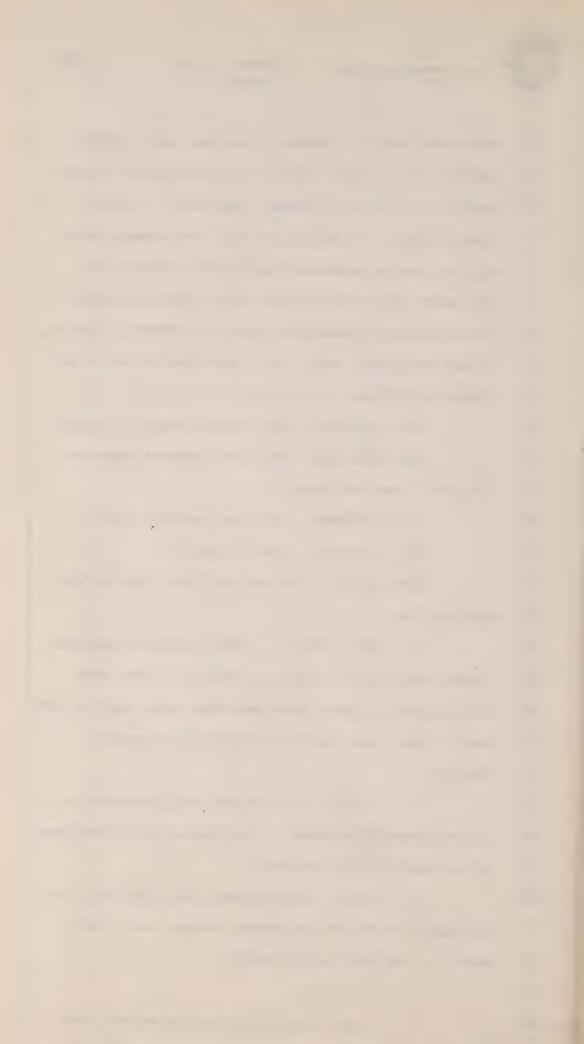
Well, Mr. Brazier says one MR. SINCLAIR: thing and I say the other.

THE CHAIRMAN: Well, we can argue that.

MR. SINCLAIR: That is right.

MR. COOPER: As long as I don't get in the middle of it.

- Mr. Roberts, I asked you some questions Q. o a moment ago with respect to costing work done when you published a competitive rate: what about costing work done, if any, when you are negotiating an agreed charge?
- Well, we follow the same procedure, sir, as with competitive rates. We examine all rates when we are negotiating a new rate.
- Yes, I would expect the answer would be the same with respect to agreed charges, and I just wanted to get that on the record.
  - A. Yes, sir.
  - Again with this question we have just Q.



paragraph on that page assume that if rates are
based on costs there will, in fact, continue to be
revenue cases; is that correct?

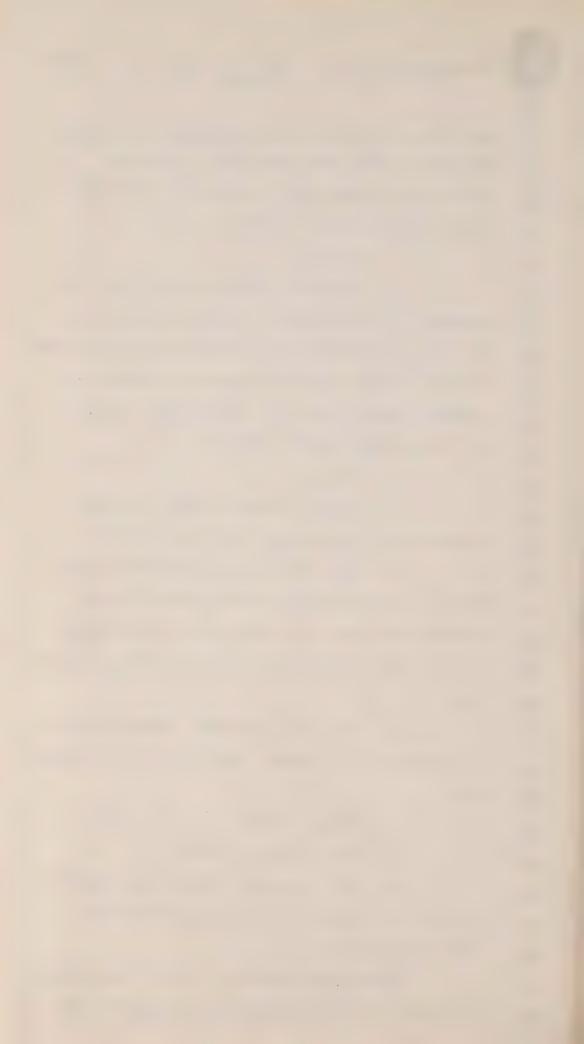
A. Yes, sir.

O. On page 12, at the bottom of the first

been dealing with on page 11, you again in the second

- Q. On page 12, at the bottom of the first paragraph, the last sentence, "Again, of course, if the level of the rate is not making a contribution over variable cost and the traffic cannot be retained at a higher rate the contract is terminated." There you are speaking of agreed charges?
  - A. Yes, sir.
- Q. Can you tell me how many such cases of termination of agreed charges there have been?
- A. Well, there has only been the one, and that is an agreed charge covering stude oil from southern Saskatchewan and some points in Manitoba to Fort William. It was terminated in September of this year.
- Q. And it was terminated because the level of the rate was not making a contribution over variable cost?
  - A. That is correct.
  - Q. That is the only case?
- A. Yes. Any other ones we have examined were above variable and in some cases there were negotiated increases.

COMMISSIONER ANSCOMB: How did that happen, if you settle all these costs before you make these



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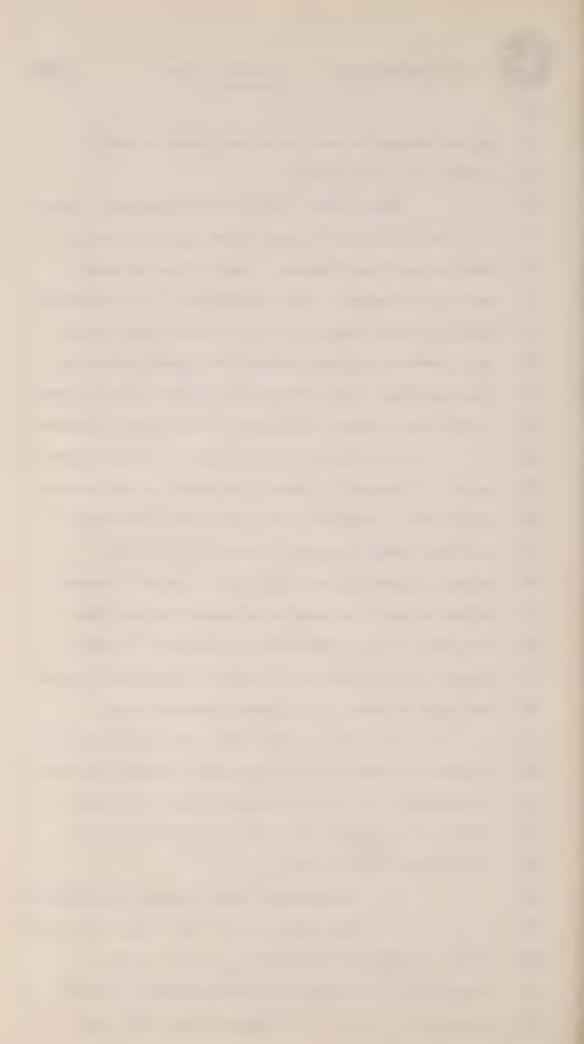
agreed charges -- and the agreed charge is only a matter of a year anyway?

THE WITNESS: Well, sir, this agreed charge had been in effect for about four years, as I recall, and the costs had changed. When it was originally put in, of course, it was compensatory — four or five years ago; but towards the end of last year or early this year in our going through the agreed charges we came upon this and endeavoured to negotiate an increase in the rate and were not able to, and it was terminated.

MR. COOPER: Q. On page 12, the last paragraph, "In regard to competitive rates, no set pattern is adopted. Sometimes these rates are increased at the same time as general increases. At other times, a general across-the-board increase in these rates is made in advance of a general revenue case."

Can you give the Commission any instances of when a general across-the-board increase in competitive rates was made in advance of a general revenue case?

- A. Well, I would say, that the 15 per cent increase in competitive rates, which was made effective on September 15, 1948, was made prior to the next increase which was an 8 per cent as part of a 20 per cent general application.
  - Q. Are there any other examples or instances?
- A. Well, sir, we have dealt with competitive rates insegments; for example, we made various increases in our eastbound transcontinental rates on October 1st, 1949. On February 23rd, 1951, the



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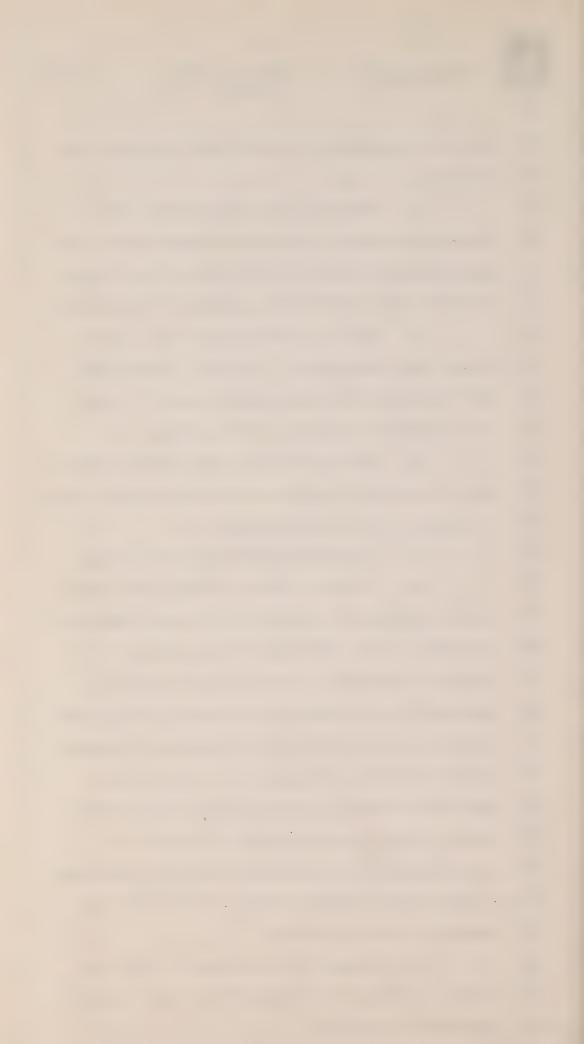
Ontario and Quebec pick-up and delivery rates were increased. On March 7th, 1951, there was an increase in the truck competitive rates in Alberta. These have been made from time to time over the years on different segments of traffic.

- Q. And they have been made designedly in advance of a general revenue case?
- A. Not so, sir -- not designedly in advance, but in evaluating the situation.
- Q. On page 13 you discuss the distinction which, as you say, a number of people attempt between captive and non-captive freight traffic and you state, "This type of approach is foreign to a practical traffic man. People who attempt to make this distinction do so on the assumption that some traffic is the particular and exclusive preserve of the railways to exploit as they will. This type of traffic does not exist." If you take out those words, "to exploit as they will", the assumption would then be that some traffic is the particular and exclusive preserve of the railways?
- A. No, sir, I would not say that there is any traffic that is our particular preserve. For example, we may be handling - and I come back to a very basic material -- sand and gravel; we may be handling by rail large quantities of sand and gravel but the rates are predicated on a rate that will move the traffic. We could put those rates so high that the man would search and find a rit closer to his



point of consumption so that the sand and gravel could be trucked.

- Q. Therefore, all traffic which the railways move today is subject to competition and the railway does not enjoy, or the railways do not enjoy, a monopoly with respect to any segment of that traffic?
- A. Well, you have to carry it a little further than competition. You have to look at the other conditions such a alternate sources of supply or substitution of another kind of product.
- Q. But no matter for what reason or reasons, there is no traffic today over which the railways enjoy a monopoly; is that your position?
  - A. In my estimation, sir, that is right.
- Q. If that is so, Mr. Roberts, why should rates be regulated in any way at all by any regulatory authority? As I understand it, as a general principle, regulation is put in by governments or established by governments over industries which enjoy monopolies and are therefore in a position to perhaps be unfair or exploit those who must resort to the services which those industries offer. Now, if the reason -- which I have suggested is monopoly -- for regulation is gone, then why should not regulation go also and the railways be freed entirely from any regulation over their rates?
- A. I would not like to see -- this is my opinion, Mr. Cooper -- no regulation; I don't think that would be good, sir.



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- Q. Why not?
- A. Well, you could have situations where this would not be good. You could have situations where one railway would be taking advantage of the situation to the detriment of the other.
- Q. There are only the two railways in the country?
- A. Yes. Well, there are the small railways -- the T.H.& B. and the Chesapeake & Ohio.
- Q. Are you suggesting that rate regulation must be kept in effect so that one railway may be protected against another?
- A. Well, that is one feature, Mr. Cooper. There should be some protection, certainly, in my estimation.

THE CHAIRMAN: But the shipper does not need it?

THE WITNESS: No, sir, I don't think we take advantage of our shippers, sir, at all.

---Short recess.



THE CHAIRMAN: After Mr. Cooper has finished,

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Mr. Frawley, Mr. Brazier, Mr. Smith, Mr. Mauro, Mr. Carter. MR. FRAWLEY: Mr. Chairman, I beg most humbly

provincial counsel will cross-examine in this order:

to ask not to be asked to cross-examine first. You have been kind enough to suggest that by virtue of my seniority. I would not like to cross-examine first. I have only just completed presentation of my own briefs, and I would like very much to stand down to the last.

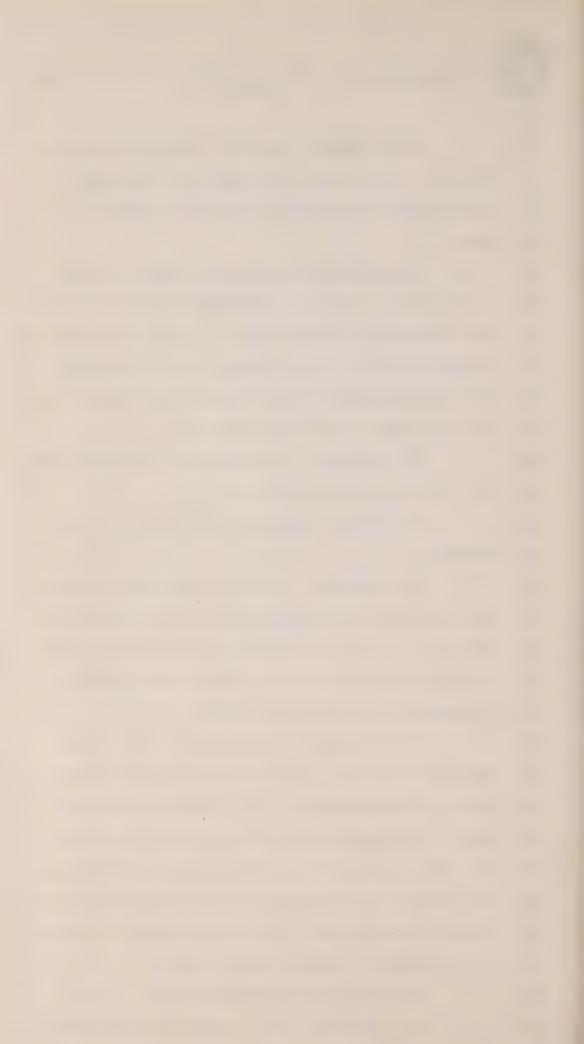
THE CHAIRMAN: Mr. Brazier will commence, then, and then will follow Mr. Mauro ---

MR. MAURO: It has all been considered, Mr. Chairman.

THE CHAIRMAN: I will also say that in view of the announcement this morning of the cost conference in Montreal, from which all counsel will be barred, that we will go on here on November 14 hearing the evidence of Mr. Wesson of the Saskatchewan Pool.

MR. SINCLAIR: I wonder if he could let us have his submission. I have a copy through the good offices of the Commission, but I presume he has extra copies. The reason I have not wired him, sir, was that there was some suggestion that he might not present it, but I take it it is now going to be presented and a date is being fixed for him. I will take advantage of asking Mr. Jack Wesson to send one to me himself.

> THE CHAIRMAN: Mr. Wesson is about to retire. MR. SINCLAIR: Well, we will try to send him



off in a good way, sir.

MR. COOPER: Q. Mr. Roberts, on page 13 in the same paragraph to which I was directing my attention in the last few questions there appears this sentence in your discussion of the admitted division between "captive and non-captive" traffic:

"The answer to a practical traffic man is that much of the traffic, for example, moving at class rates is of a type that because of its transportation characteristics (either weight in relation to bulk, or claims experience, or size of shipments) is not within the cost area that competing loads of transportation will meet, even though such traffic may be high rated in relation to the average revenue per ton-mile of all traffic, or the average revenue per ton-mile of traffic moving on other types of rates. "

If one accepts the British Columbia definition of "captive" traffic as being traffic which is not subject to reasonable competition, would not the traffic which you refer to in the sentence that I have read be "captive" traffic? If it is not, what other name do you give to that class of traffic?

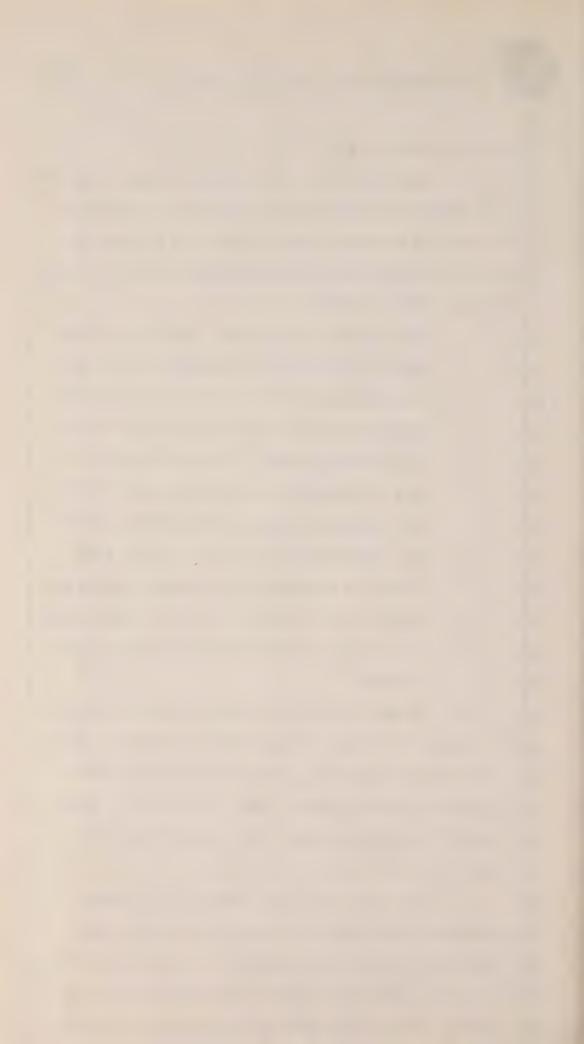
A. Well, sir, it is "captive" to a point.

Reasonable competition, of course, is a pretty loose

definition. Reasonable competition -- everybody has their

own idea of what is reasonable. But, you can get your

rates up to the point where it is attractive to other

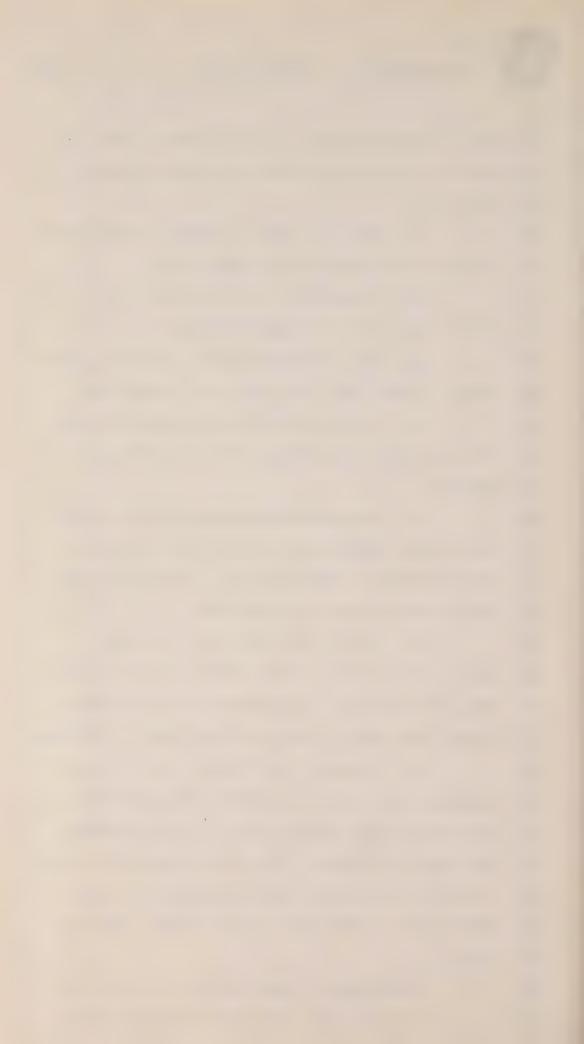


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types of transportation, or, again, you come into the question of using other products or other sources of supply.

- Q. There is a class of traffic, is there not, for which in fact there is no competition?
- A. At the moment. At the moment, for example, there would be heavy machinery.
- Q. Would you apply the word "captive" to that traffic, or what word would you use to describe it?
- A. I would say that at the present time the rail is the most satisfactory method of handling the shipment.
- Q. You cannot designate that type of traffic by any term? Obviously, you do not think the word "captive" should be applied to it? Is there any other term by which it should be designated?
- A. I do not think so, sir. It is just traffic moving by rail at the present time, but I do not know, under different circumstances it might not move by some other form or from some other place in the future
- Q. On page 14, Mr. Roberts, the first complete paragraph on that page. You refer to the proportion of the railway traffic which moves at class or commodity rates and is not marked "competitive" represents a large proportion of the total traffic in some areas of the country than in other areas of the country. And, then, you say:

"This does not mean, however, that in general revenue cases, this traffic is being called



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upon to bear an unfair burden or an unjust proportion of the increase."

Now, when you speak of an unfair burden, are you speaking of it with relation to the shipper, as I think you must? But, I would like you to answer the question.

- A. An unfair burden on the traffic, on the traffic itself and the transportation rate charges relating to it, whoever is responsible for them: the shipper or the receiver.
- Q. But might it not be said that it does in fact constitute an unfair burden from the shipper's standpoint in that the long haul shipper's absolute charges for transportation are increased out of porportion to what they were before?
- A. I would not say out of proportion at all, sir. They are increased proportionately. All rates proportionately.
- Q. I refer you to the report of the Turgeon

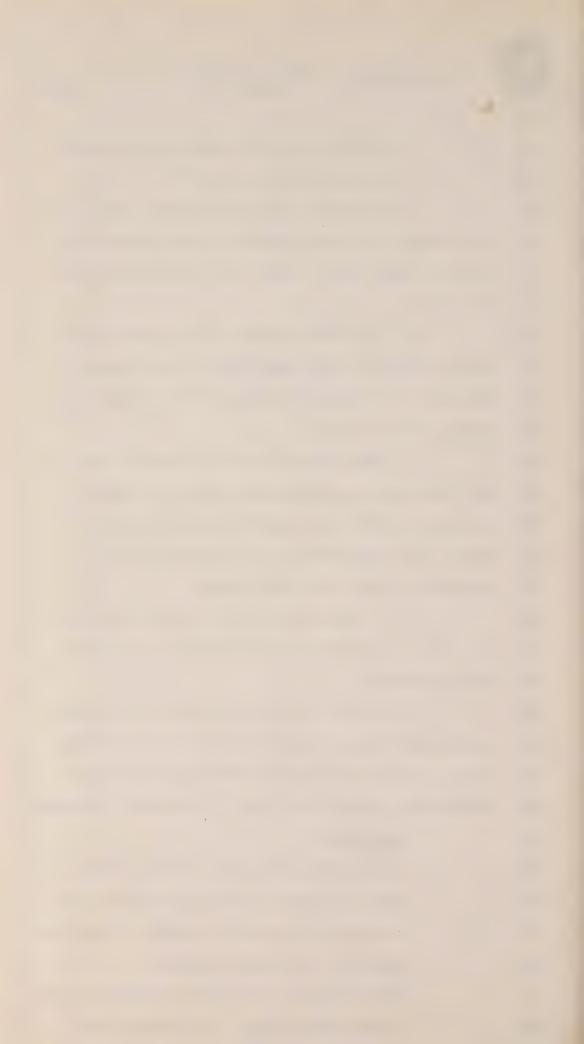
  Commission on page 50, and this will be very familiar

  to you. Under the heading of "horizontal increases",

  examples are given of the effect of horizontal increases.

I now quote:

"In order that the real grievance of the long haul shipper or consignee may be better understood, it should be pointed out that the disturbed relationship complained of is the actual money, not the rate relationship, which is considered unfair. For instance, two





shippers or consignees have, before the increase, a money difference between them of \$10 brought about in this way. The long haul shipper pays \$20; short haul shipper pays \$10. Both shippers having their rates increased by 50%, the following money relationship is established: the \$20 shipper now pays \$30; the \$10 shipper now pays \$55. The difference between them after the increase is \$15, instead of \$10 as previously."

Now, do you consider that under those circumstances the shipper --- and by "shipper" I mean the long haul shipper --- has in fact a real grievance?

A. Well, no, sir, because his rate has been increased proportionately.

Now, the mere fact that there was a \$10 difference between the two rates before does not have any significance in that the rates were established to meet the traffic.

I mean, you do not look at one rate and say,

I will make this \$10 above the other. You made the

rate to move the traffic.

Now, it so happens that proportionately one is \$20; one is \$10. The relationship is one is 50% of the other. The relationship is still maintained, sir, in the rate in that it goes to 30 versus 15, it still is 50% of the other.

The difference in the rate, sir, is not significant in establishing the rate. You make the rate



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in effect, selective increases being applied, in spite

of the fact that we speak of general percentage increases and horizontal percentage increases as if that increase was to apply equally throughout the whole rate structure;

Does not that result, Mr. Roberts, in,

In fact, it is known before any general

revenue case is brought to the Board that certain rates

to move the particular traffic.

Q. And I suppose that fact that the rate relationship is not disturbed may be cold comfort to the shipper whose competitive position is worsened by the general revenue increase?

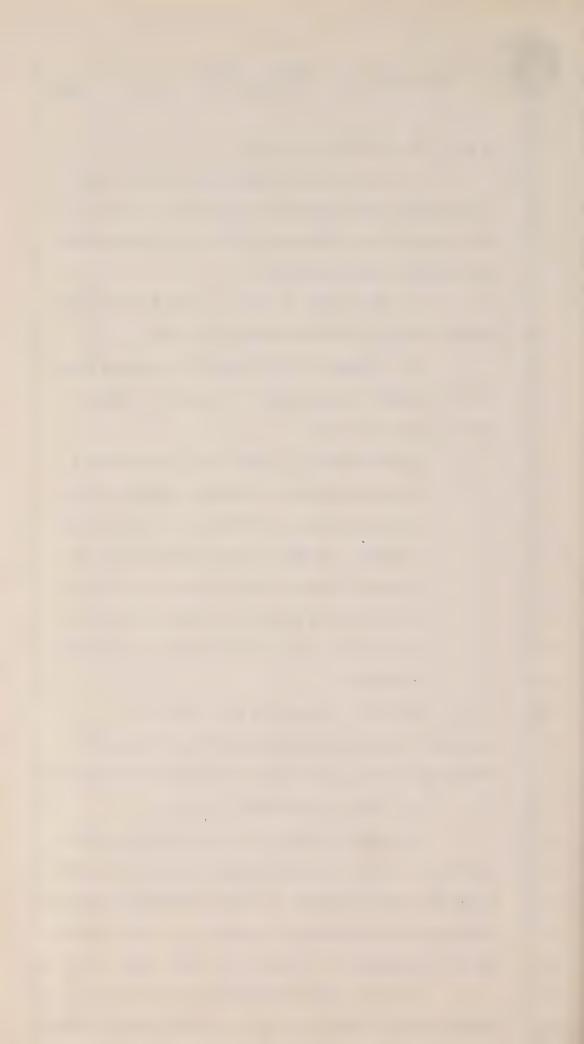
A. Well, sir, we have not asked him to bear proportionately more than anybody else has.

Q. On page 15, you mention the method which is followed upon application for a general revenue increase, and you state:

> "A calculation is then made to show what a given percentage of increase applied to the various segments of traffic is estimated to produce. In these calculations, weight is given to law and traffic factors as well as attrition and erosion of traffic which will follow from the application of the proposed increase."

Now, as I understand it, before the percentage increase to be applied for is struck the factors of attrition and erosion are taken into account?

A. They are measured, sir, yes.



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which is being asked for?

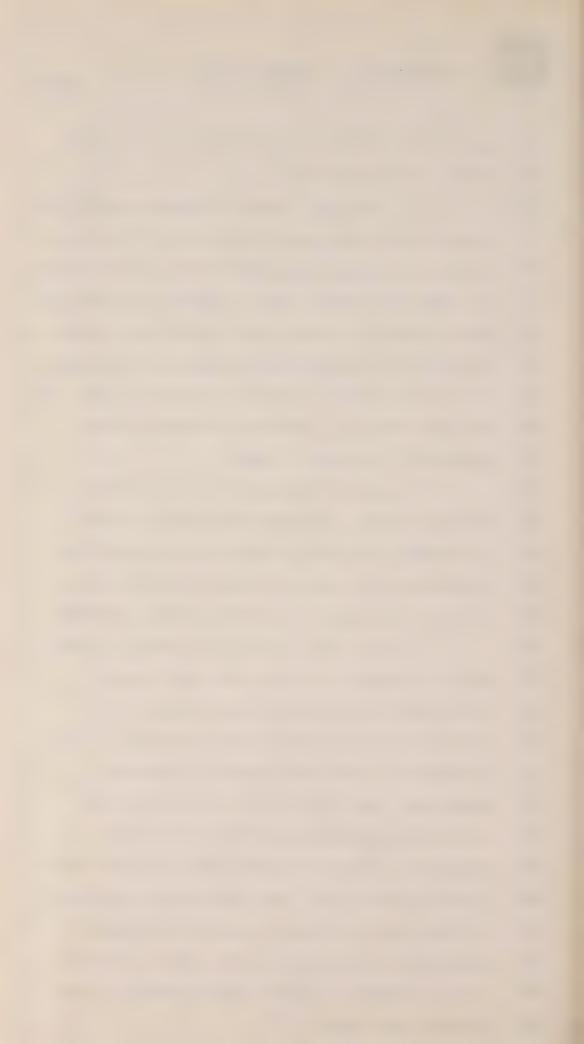
A. No, sir, I would not agree with that, Mr.

will not in fact be able to take that full increase

A. No, sir, I would not agree with that, Mr. Cooper. You do not know that you will not be able to retain the increase on any particular segment of traffic. You apply the increase that is authorized, and then you have to move back; take all or a part of the increase on segments of the traffic as the competition forced you to do it. So, you are not doing it selectively, sir. You are, you might say, I suppose, testing the market. I suppose you could call it that.

Q. Is not the effect of it selective increase because, even before the general revenue proceedings are brought, rates are reviewed and the percentage is set having in mind, as you say here, attrition and erosion on certain segments of traffic?

A. No, sir. It is not on certain segments, sir. We carried out a study after the increase authorized in 1956 because at that time we first mentioned the attrition and erosion feature. We carried out a study after the first increase was authorized, the 7% interim increase, and also the substitute interim increase to verify that our assessment of what would happen when we applied these increases was correct. Now, we also have carried out the same sort of a study in respect of subsequent increases. So you cannot say we pick any particular type of traffic; we see what has happened in the past and apply that factor.



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	Q. Well, would it be true to say that in
fact	the traffic moving at normal rates is selected to
bear	a certain percentage increase when it is known at
that	time that other that is, competitive traffic
will	not bear that full increase?

- A. Well, not particular segments, Mr. Cooper.
- Q. Perhaps I am using the word "segments" wrongly. Correct me if I am.
- A. The attrition factor which we use in regard of non-competitive traffic was 20%. Now, we do not know just exactly where the competition would arise to necessitate our taking off revenue equal to 20% of the increase authorized.
- Q. My difficulty, frankly, Mr. Roberts, perhaps comes from, or is pointed up for me, from the first sentence on page 50 of the Turgeon Report which reads, and I quote:

"The method of applying a uniform percentage increase to all rates is known as the horizontal percentage increase."

I cannot appreciate the application of a uniform percentage increase to all rates when it is known that percentage increase in fact is not going to be uniform before the percentage figure is ever arrived at?

A. Well, sir, that is something that would probably confuse you, but we do not know, Mr. Cooper, when we apply, say, a 17% increase on a certain movement that we will, by reason of competition, have to reduce



that to, say, 11% over the previous rate or take it all off.

Q. You would have a pretty shrewd idea, though, Mr. Roberts?

A. No, sir, not on all movements, Mr. Cooper.

· COMMISSIONER MANN: If you will pardon me,

Mr. Cooper. I would like to ask Mr. Roberts what happened to the beer and ale rates to central Canada. For instance, after the 17% increase was authorized, did they ever go up?

THE WITNESS: That is in an agreed charge.

COMMISSIONER MANN: Before it became an agreed charge, was it not a competitive rate?

THE WITNESS: It was a competitive rate, but it has not been a competitive rate for --

COMMISSIONER MANN: It became an agreed charge after the 17% increase came in.

THE WITNESS: Excuse me, Mr. Mann, the competitive rates were increased and subsequently we had to take the increase off.

commissioner mann: Do you have any information you could give us as to when that increase came off?

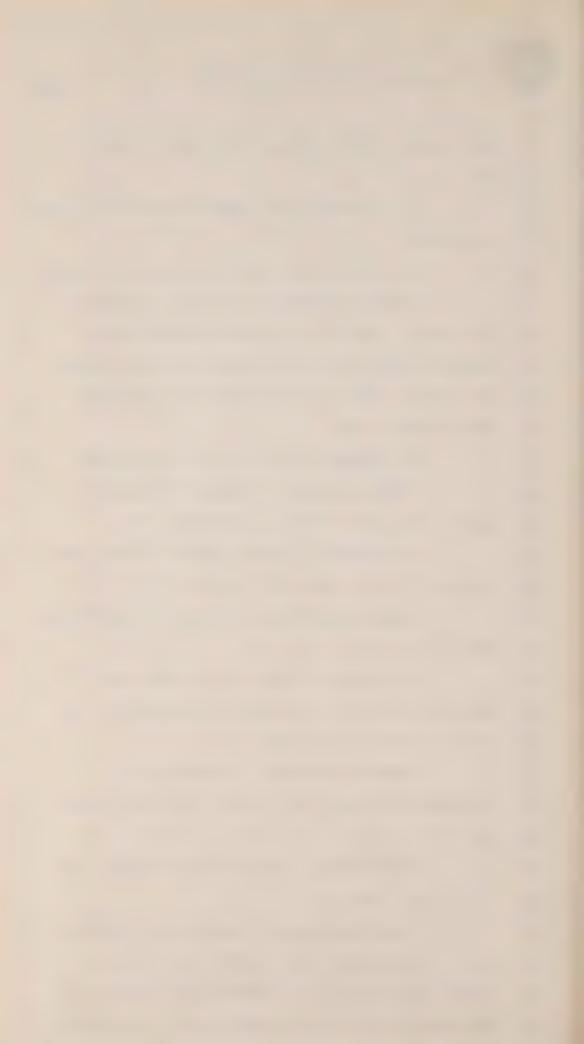
THE WITNESS: I do not have it with me, sir.

I will get it for you.

COMMISSIONER MANN: Thank you, Mr. Roberts.

MR. COOPER: Q. I move to page 17, Mr.

Roberts, where you refer to exhibit 162. I only have one question with respect to that exhibit, and that is





as to its overall effect.

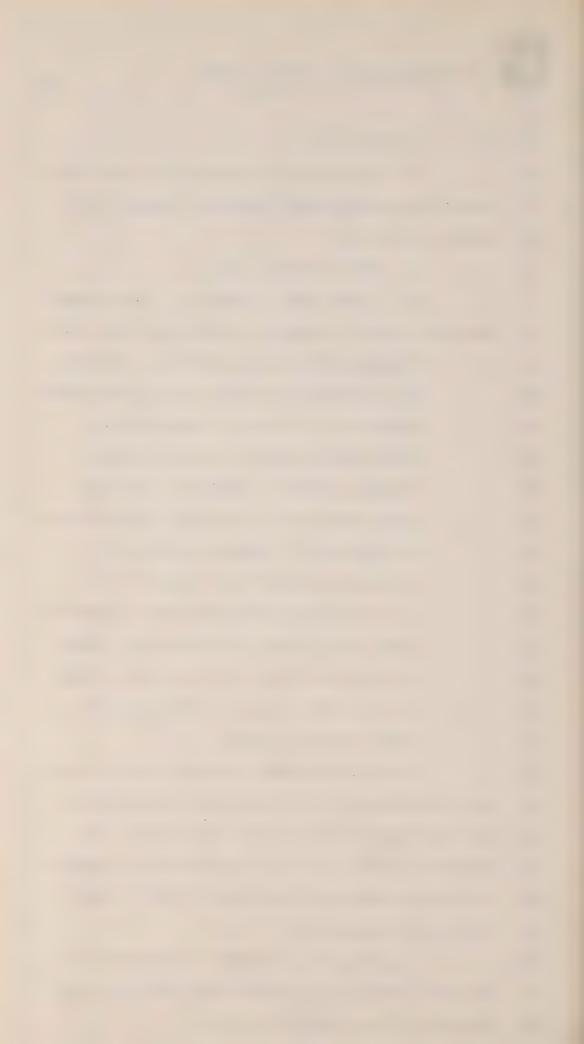
As I understand it, from the 17% freight rate increase authorized in fact there was obtained 10.3% increase in revenues?

- A. That is correct, sir.
- Q. I move, then, to page 21. I do not quite understand the last paragraph on that page, which reads:

"Assuming that it was arbitrarily decided to fix a maximum of a certain amount per hundred pounds on all traffic, it would result in higher rated commodities paying a lesser increase, distance considered, than lower rated commodities. For example, the hold-down, and therefore the maximum increase on refrigerators would come into play for relatively short hauls while that on sand and gravel might never become effective. There would be variations as to the length of haul and the effect of the hold-down on almost every commodity handled."

Now, this paragraph, of course, is dealt with under the heading of horizontal percentage increases with hold-downs. Would you mind, Mr. Roberts, just expanding on that a little bit and putting it, perhaps, in a slightly different way so that it will be quite clear to the Commission?

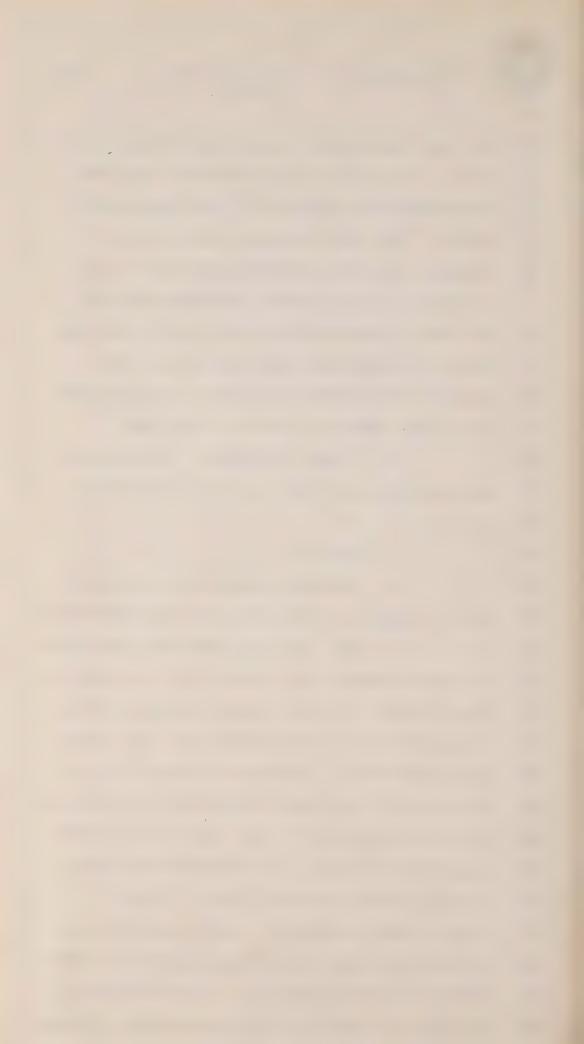
A. Well, sir, depending on the measure of the rates, again, the held-down would come into play in respect of, say, sand and gravel.



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As I say, sand and gravel moves short distances at low rates. You say you had an increase of 5 per cent authorized with a maximum of 10 cents per hundred pounds. Well, sand and gravel would not move distances that would invoke the application of the maximum of 10 cents. However, take refrigerators, the level of the rate is such that, say at 500 or 600 miles the maximum would come into play and for a shipment over 500 miles the maximum of 10 cents would apply rather than the increase of 5 per cent.

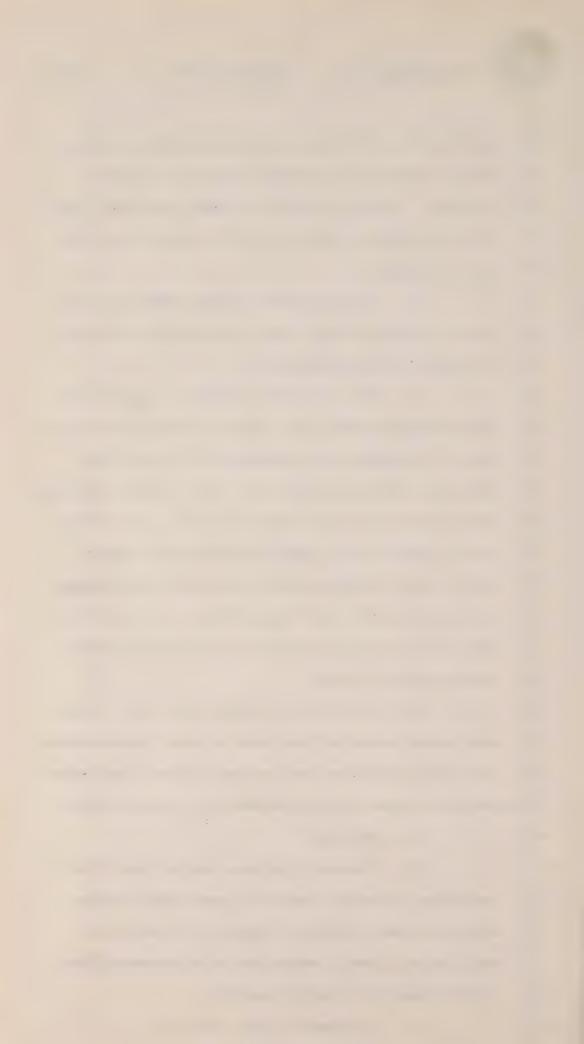
- Q. I think I understand. This method of applying hold downs is in use in the United States, is it not?
  - A. Yes, sir.
- Q. You might indicate to the Commission what difficulties, if any, have been experienced there.
- A. Well, you have a different situation in the United States in that you have what you might term area railways. You have southern railways serving Florida who produce citrus fruit, and a large market would be New York. You have the citrus fruit producing area of California and they are both interested in the New York market. Now, they are each served by different railways. The Southern Pacific, for instance, serving California, says, "If I am going to keep my shipper in the New York market his increase in transportation charges should not exceed that of the Florida shipper." The Florida could be 10 per cent and as a result his increase is 5 cents,



so, therefore, the exception would be made on citrus
fruit to enable the California grower to get into

New York. It will be set at 10 cents, maximum 5 cents,
so the California shipper would not exceed that of the
Florida shipper.

- Q. If we had area railways here, or, let us say, a method of set rates for areas then perhaps this method would be feasible?
- A. Well, it would probably be applied for the same reasons that each railway serving a particular area of the country would endeavour to protect his particular part of the country. Now both the Canadian National and ourselves, while we are not area railways, we move lumber in the maritimes and we move lumber from British Columbia; we move fruit from the Ckanagan Valley and we move fruit from Ontario. You have to look at the whole of Canada which is quite different from the United States.
- Q. You would not suggest that our railways, even though extending from coast to seast, nevertheless should be regarded as area railways and one area separated from another for the purpose of a rate structure?
  - A. No, sir.
  - Q. I gather from what you have said that in the United States this method of percentage increase with hold downs in effect is there to preserve competition in a domestic market and to allow competition to take place in a domestic market?
    - A. As between areas, yes, sir.



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Q. Now, on page 25 you state in the third complete paragraph and I quote:

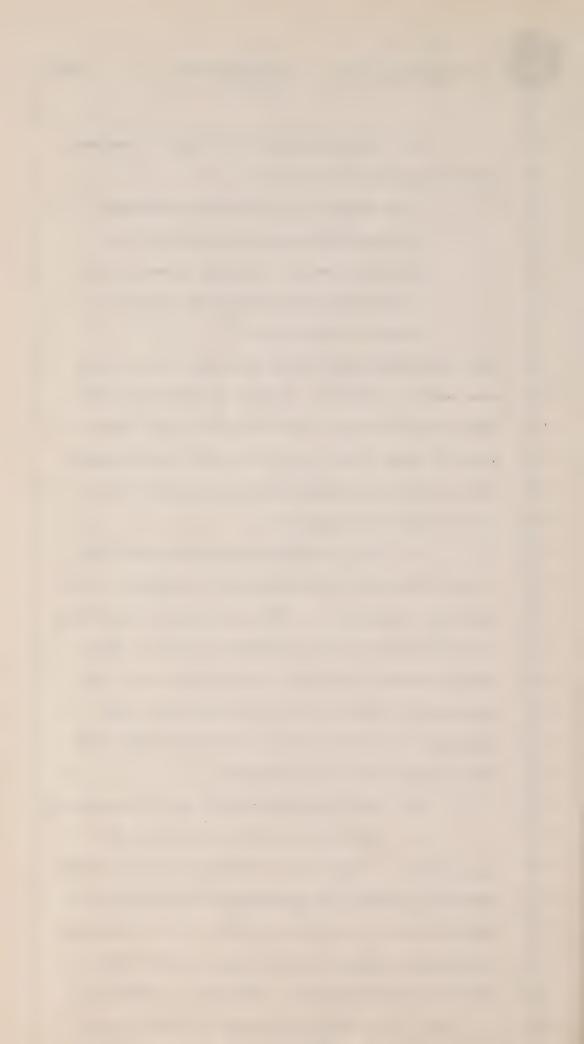
"The method of a horizontal percentage increase with hold downs does not meet the tests which I referred to earlier as controlling the method to be applied in general revenue cases."

Does this method meet any of the tests to which you have referred earlier? Perhaps you would be good enough to turn back to those tests and just indicate which of them, if not all, are not met by the method of horizontal percentage increase with held downs.

The reference is to page 7.

- A. Well, the first basic test was that it must create the least possible disturbance to the basic rate structure. Well, if you have a percentage increase authorized with a maximum amount in cents per 100 pounds, of course, the rates that were proportionately related before certainly would lose their place in the structure. The structure would become distorted, in my estimation.
  - Q. The second is that it must be practical?
- A. Well, it must be practical in its application. Now, in my estimation it would not be practical to apply the percentage increase plus hold downs because I do not think it is -- it is difficult to say which type of traffic should be given the benefit of the hold down. You have to arrive at --

say, you go out on this type of traffic; you



say you will go cut on lumber and the next thing you know after that is granted you will have to extend it to the manufacturer of these prepared sidings.

The thing is like a widening of circles, it goes beyond what was originally intended.

- Q. You are saying, as I understand it, it is not practical because of the difficulty of selecting the traffic to which hold downs should apply?
- A. Certainly I would say that was one of the major difficulties.
- Q. What about the third test, that it must be fair to shippers and railways alike?
- A. Well, similarly it is not fair to one shipper, the shipper of lumber, to say that we will give a hold down of so many cents and not give similar treatment to the shipper of prepared siding, or, not a competing product, say apples. The amount of the hold down could differ too, and I should not pay my increase on a 7-cent maximum and somebody else only pay 5 cents.
- Q. You are talking now of unfairness to the shippers; what about the railways?
- A. Well, it places us in the position of being faced with continuing complaint from our shippers that we are favouring one particular commodity over another.
- Q. Now, test (d) is contained on page 8.

  You might indicate why you consider the method to be used should not be an attempt to associate the increased



cost with the cost involved in the movement of individual segments of traffir if, in fact, it does?

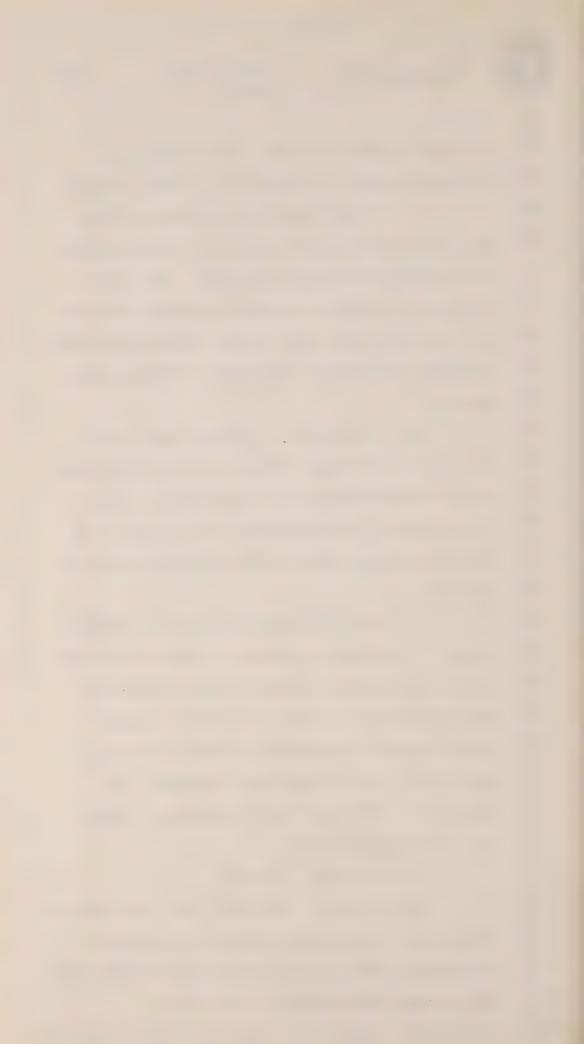
- A. Well, because of the basic fact that the rate structure as it is today is based on value of service and each rate has its place. The rate structure is sensitive, despite what people say, and with the use of hold downs you are upsetting all these different relationships within the structure, one to another.
- Q. On page 26, Mr. Roberts, you mention that coal and coke take over an increase in cents per unit of traffic rather than a percentage increase.

  Do you think an increase on soal and coke should be expressed in percentage and not in certs per unit of traffic?
- A. Well, you have two schools of thought on that. The lightle producers in Saskarchewan would like to see them on a percentage basis because they claim that the use of the flat cents per hundred pounds increase is detrimental to their interests when the same increase applies to producers from Drumheller. This has been established, I think, since the first rate case.

THE CHAIRMAN: In 1917?

THE WITNESS: About 1917, yes, the method of placing coal in a different category of cents per one hundred pounds has been carried right through under the different authorizations of the Board.

MR. COOPER: Q. Would your view be it is so



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scale down from 10 per cent to 5 per cent and you would be paying 10 per cent on your shorter had traff1 30

imbedded now in the rate structure that it should be continued?

- A. Well, if percentage increases are fair for everybody els: I take the position it should be fair for coal.
- Q. That is why I asked you the question, of course, because your basic position is "lat percentage increases are fair for everybody and indeed the only real fair method.
  - A. That is right.
- Q. And, therefore, I would take it that what you say should apply to soal and soke equally as to everything else?
  - A. Yes, sir.
- Q. You deal, ending on page 30, with a ' method of graquated percentage increase and will not deal in any detail with it, because no doubt it will be dealt with by other counsel. However, I just want to summarize in a word your position with respect to this suggested method and your objection to it I think your injection is expressed very shortly on page 31 at the end of the first paragraph on that page, "It is a taper on a taper."
  - A. That is correct.
- Q. That is your fundamental objection to this graduated percentage increase? .

A. That is right. You can see it would



on page 33

which I think would, in my estimation, be a heavy burden on the traffic and make it susceptible to competition. I do not think it is a fair method.

- Q. We may come later on in Mr. Edsforth's evidence to where a graduated method has been suggested to deal with it, but I think that is as far as I wish to go with it at the moment. At page 33 under the heading of "50/50 Increase, Horizontal Increase in Cents per Unit of Traffic," under this heading had you in mind the Manitoba proposal as contained in the preliminary submissions of Manitoba in Winnipeg?
- A. Yes, sir, this is all we had to work on when this brief was prepared.
- Q. That proposal has now been changed so it cannot be referred to as a 50/50 ---

MR. MAURO: Mr. Chairman, with respect I simply want to say that the proposal in Manitoba never suggested a 50/50 split but in cents per hundred pounds reflecting terminal and line-haul.

THE WITNESS: This is a use of words, Mr.

MR. MAURO: I just wanted to make it clear it has not been changed.

MR. COOPER: But, in any event, there will be further evidence with respect to this proposal, and, therefore, I do not intend to go into it in any detail at this time. I merely wished to direct your attention to one sentence in the last paragraph on page 33:



"Basically the 50/50 increase method requires

considerable statistical information which

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is not readily available and would be expensive to compile."

MR. SINCLAIR: Mr. Chairman, just so there will not be any misapprehension. I dertainly do not want my friends to be under the impression that I am

deal with all the various proposals put forward.

After all, I have only had them a couple of weeks and some of them might never hear what our position is until I have filed my final statement.

taking upon myself the onus of malling evidence to

THE CHAIRMAN: You are commenting now on what was given at Winnipeg?

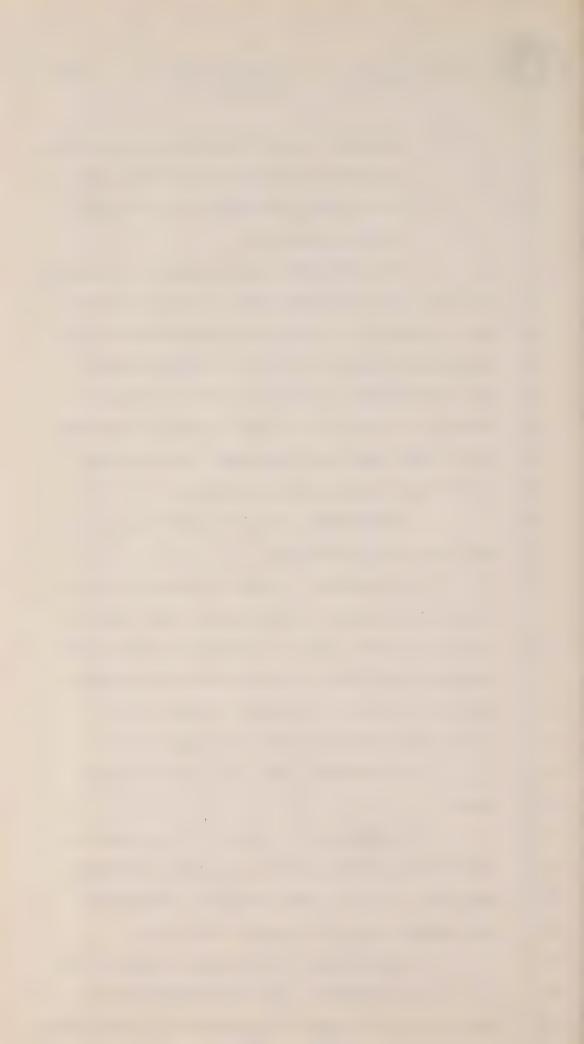
MR. SINCLAIR: What I am saying is, I do not want my friends to think the only time they are going to hear the position of Caradian Pacific on the proposals put forward is through Mr. Roberts and Mr. Edsforth. Some of the economic aspects of it will be dealt with by myself in my submission.

THE CHAIRMAN: Well, so long as you are around.

MR. SINCLAIR: I realize it puts some disability on my friends because I am imune from their questions. Up till now I have had to fight them off from the back and I suppose I have to ---

THE CHAIRMAN: We will make the best of it.

MR. COOPER: I was not implying at all that Mr. Sinclair might not be dealing with this matter



in final summation or argument. I was making a point from what Mr. Sinclair said this morning that the Manitoba proposal would be dealt with in the evidence of Mr. Edsforth.

MR. SINCLAIR: Some of it.

MR. MAURO: What you want to deal with.

MR. SINCLAIR: Whatever I want to deal with in evidence will be dealt with by Mr. Edsforth and whatever I want to deal with in argument I will do so.



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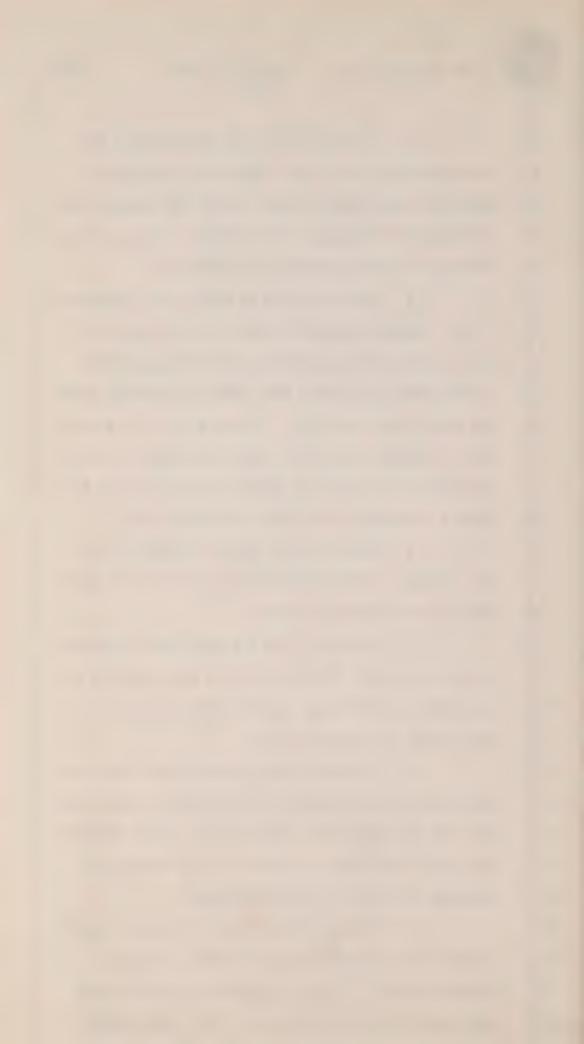
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		Q.	ΙŁ	nave	cal	led	your	att	ent	ion t	o the	•
first	sent	ence	on	the	las	t pa	ragra	aph	of	page	33:	
would	you	expar	nd i	that	to	scme	exte	ent	and	indi	cate	the
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- A. We would have to have, sir, a breakdown of the tonnage moving under the different types of rates; that is to say, under agreed charges, which is not readily available now; under competitive rates, and normal rated traffic. We would also have to be able to separate from our entire handlings all international traffic which is quite a tremendous job and which is certainly not readily available now.
- Q. When you say "quite a tremendous job" what length of time would it take to do it, and what would be the expense involved?
- A. We don't have the facilities available as yet to do it. We hope to be in that position at some time in the future, but it would all have to be done pretty well manually now.
- Q. On page 34 you mention the bridge subsidy, and the last sentence on that page -- and I have only one question with respect to the bridge subsidy -is it your view that the bridge subsidy should be retained or should it be discontinued?
- A. Well, the position of Canadian Pacific is that we are against subsidies being applied to transportation. If any assistance is found necessary, then it should be given in some other manner.



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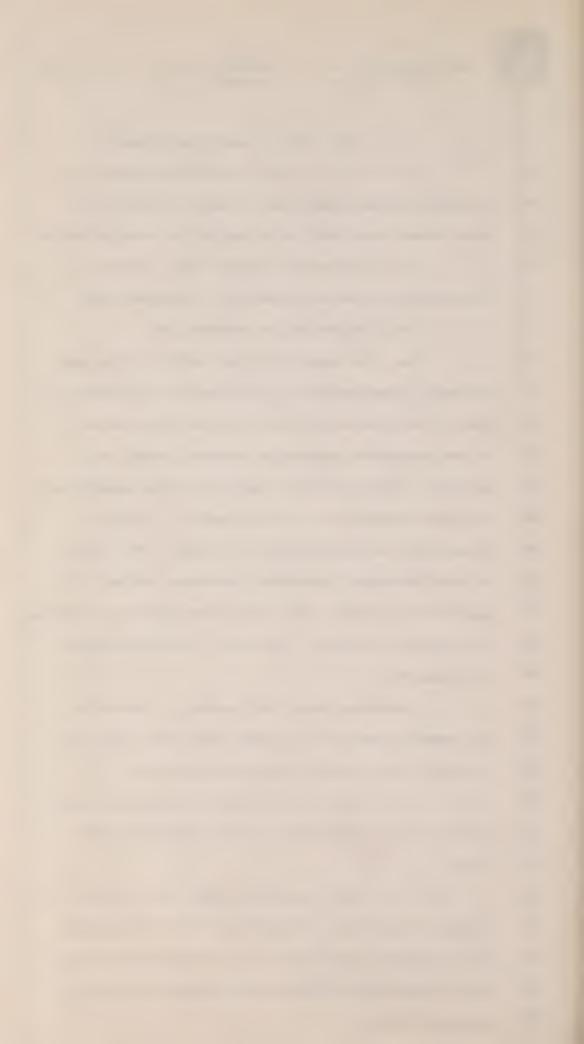
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- I am sorry, I just missed that. Q.
- A. If it is felt that any assistance is necessary to some and then it should be given in some manner other than being applied to transportation.
- The bridge subsidy, then, should be discontinued at least in the way it operates now?
  - A. In the way it operates now.
- Q. At page 36, at the bottom of the page, you say, "Canadian Pacific believes that any method of general increase which can be applied which is not on the horizontal parcentage increase method, will adversely affect low-rated heavily-loading commedities, short-haul shippers and the railways. In this connection, two points should be noted. The first is that horizontal percentage increases can be applied only between the floor of the railways' variable cost and the ceiling of the cost of competing media of transport."

Stopping there for a moment, if there is no competing media of transport, then the ceiling is unlimited, or, in fact, there is no ceiling?

- A. Well, the ceiling, of course, is the ceiling of the class rates -- the equalized class rates.
- Q. Yes, I understand that, but you have a ceiling of the cost of competing media of transport, and it seemed to me there was one segment of traffic, or one situation which was not provided for in your statement there?



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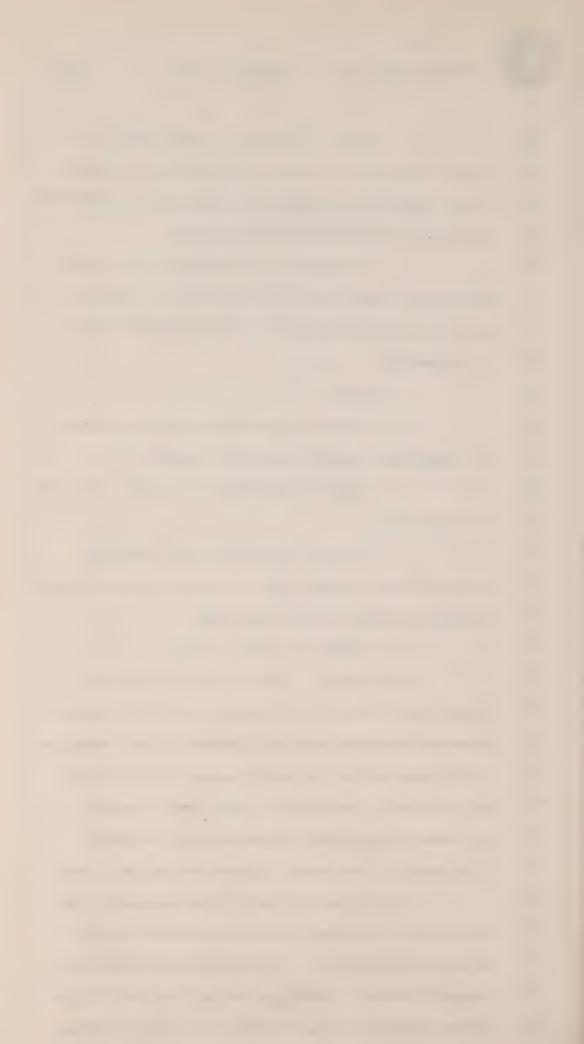
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- Q. Yes, there is a ceiling, but I am suggesting that there may be some segments of traffic for which the ceiling is not the cost of competing media of transport?
  - A. Well ---
- Q. That brings us back to our discussion of competitive and non-competitive traffic.
- A. There is some which is captive today and not tomorrow.
- Q. On page 38 you have got "Estimated Gross Revenue" in your table. Are the actual figures available as yet, for the year 1959?

MR. SINCLAIR: During 1959?

MR. COOPER: During 1959 "At and East" grain traffic from all of the Bay ports to St. Lawrence River and maritime ports via Canadian Pacific totalled 12,656 cars with an estimated revenue of \$3,241,700 as indicated - and then the ports are set out and the number of cars and "Estimated Gross Revenue", I am asking if the actual figures are available now?

MR. SINCLAIR: Well, I am responsible for this, and I told them it was not necessary to do a waybill revenue count. In other words, we didn't do a waybill check. These are the way they are carried in the company's accounts without an absolute check.



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There may have been some adjustments - that is what I am saying, but they would not be significant.

MR. COOPER: Well, the estimated gross revenue figure, then, you consider sufficient for the Commission's purposes?

MR. SINCLAIR: That is right.

MR. COOPER: And accurate within very narrow limits as coming from the company's records?

MR. SINCLAIR: That is right.

MR. COOPER: Q. On page 41, and on following pages, you make reference to the evidence adduced by British Columbia, and I merely want to ask you a very few questions there just to pick up the transcript references which you had in mind in making various statements contained on page 41 and the pages which follow.

The first one is on page 41, the second complete paragraph, "The proposal as advanced in the formal submission of British Columbia was substantially modified during the cross-examination of Dr. Hughes."

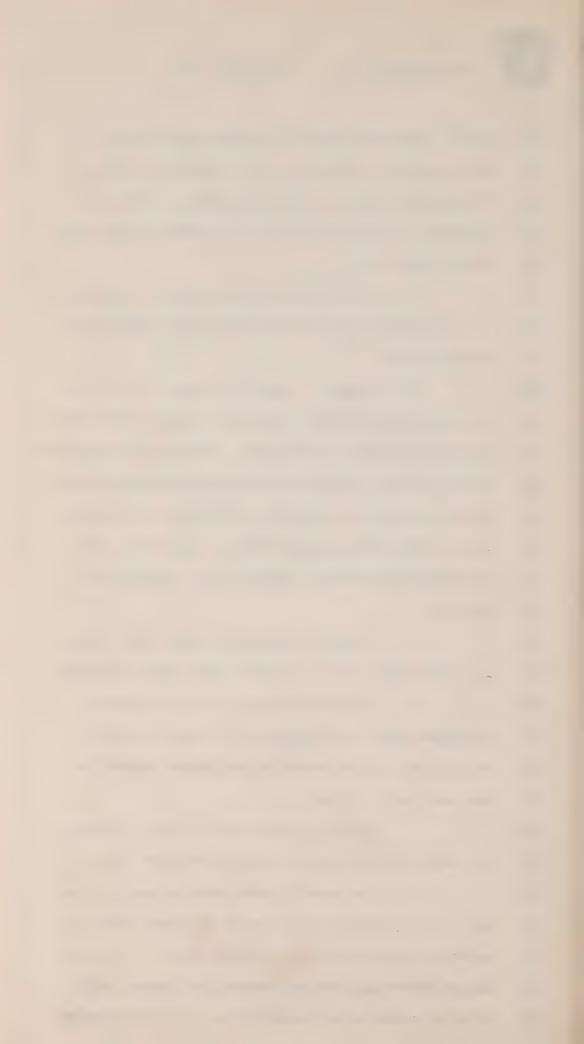
I would like to pick up your transcript references there?

- A. That is volume 78, pages 13788 and 13789.
- Q. Thank you.
- A. And also volume 79 at pages 13963 to 13966 inclusive.
- Q. Thank you, Mr. Roberts. While I am on this page, the last sentence of that paragraph from which I have been reading is as follows, "A proposal



with a completely flexible ceiling would enable
traffic to move freely and the railways to remain
financially sound." Such a proposal -- that is, a
completely flexible ceiling is just what we have got
today, isn't it?

- A. Thatis what we have today. Eventually we come around to exactly the same rate structure as we have today.
- Q. Right. Page 42, I want to pick up from you there another transcript reference: the first complete paragraph on that page. "Luring cross-examination Dr. Hughes modified this definition by including market competition, actual or potential, in addition to non-rail carrier competition, as the basis for distinguishing between 'captive' and 'non-captive' traffic."
- A. That is volume 79, pages 13971, 13972 and 13973; and also volume 80, pages 13980 and 13981.
- Q. Similarly on page 44, "Dr. Hughes suggested that the proportion of constant cost to be applied could be based on the method adopted in the grain cost studies."
- A. That is in his brief, sir. Volume 76, page 13314; volume 80, pages 14050 and 14051.
- Q. On page 48 under subparagraph (b) you say, "A competitive factor could be either actual or potential carrier or market competition." It was my understanding that the competitive factor could only be actual market competition. Can you give me



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the reference or source of the statement which you make there?

MR. SINCLAIR: Mr. Cooper, the reference as I gave it for Dr. Rughes statement on page 43, and the references for page 44 as to constant costs, we will have to look up and give to you. I gave you page references for Dr. Hughes suggestions about undue discrimination and undue preference, etc. Mr. Brazier is asking for them in regard to page 44. We would have to look that up. That was this business about constant costs, but it is in the transcript.

MR. COOPER: Q. I was directing your attention to this section on page 48, "A competitive factor could be either actual or potential carrier or market competition." It was my understanding that under the British Columbia proposal a competitive factor could only be actual carrier or market competition and not potential. I would like to get your source for the statement you make there?

- A. Volume 79, pages 13971 to 13973; and also volume 80, pages 13980 and 13981.
- Q. Similarly on page 50, in the middle of the page, there is a sentence, "However, if the maximum rates once fixed were only to be increased as costs increase, which seems to be the proposal as explained by Mr. Brazier, then the maximum rates once fixed could not be charged to reflect changes . . . " and so on. Is there a transcript reference there? A. It is volume 78, pages 13788 and 13789;



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all I have, Mr. Chairman.

and volume 77, page 13651; and volume 79, pages 13963 to 13966 inclusive.

- At page 52 -- and this is my last question, Mr. Roberts -- you state in the third paragraph, the first sentence, "The existing freight rate structure is quite capable of introducing pricing methods that will enable the railways to meet new conditions." Are you referring there to pricing methods which are not now being used and which are going to be introduced, or what?
  - A. Well, we have changed our -- at least, in endeavouring to meet competitive situations, introduced the incentive method of publishing rates. We will continue to do that and broaden the application of that type of rate making, sir, to meet anditions as they arise in the future.
  - Q. This introduction of pricing methods is rather a continuance and broadening of methods already in effect rather than the injection of any new pricing methods?
  - A. That is as I see it now, sir, but what we might be able to evolve in the future I would not lnow right at the moment.
  - No. I am only asking you present plans for the future?
  - Well, it is a broadening of the present Α. method of making rates.

MR. COOPER: Thank you very much. That is



THE CHAIRMAN: Will you carry on at two

o'clock, Mr. Brazier?

MR. BRAZIER: Yes, Mr. Chairman.

---Luncheon adjournment.



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THE CHAIRMAN: Order, please.

MR. BRAZIER: Q. Mr. Roberts, would you agree with the proposal that the fundamental problems of the rate structure in Canada and the United States had been the same in the last fifteen years?

A. The fundamental problems in Canada and the United States?

Q. Yes.

-- On resuming at 2 p.m.

- A. No, sir.
- Q. You would not?
- A. No, sir.
- Q. In the early days, is it true to say that the rate structures in both countries was built on the same basis before the advent of competition?
- A. Well, I do not know about the basis being the value of service to move the traffic under the conditions governing in each country.
- Q. That was the fundamental principle followed in both countries; was it not?
  - A. To move the traffic, yes, sir.
- Q. Yes. And your experience as a practical rate traffic man includes not only Ganada but includes the United States?
- A. It includes the United States in so far as international traffic is concerned.
- Q. Yes. Do the rates on the American subsidiaries of the Canadian Pacific Railway come under



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A. No, sir.

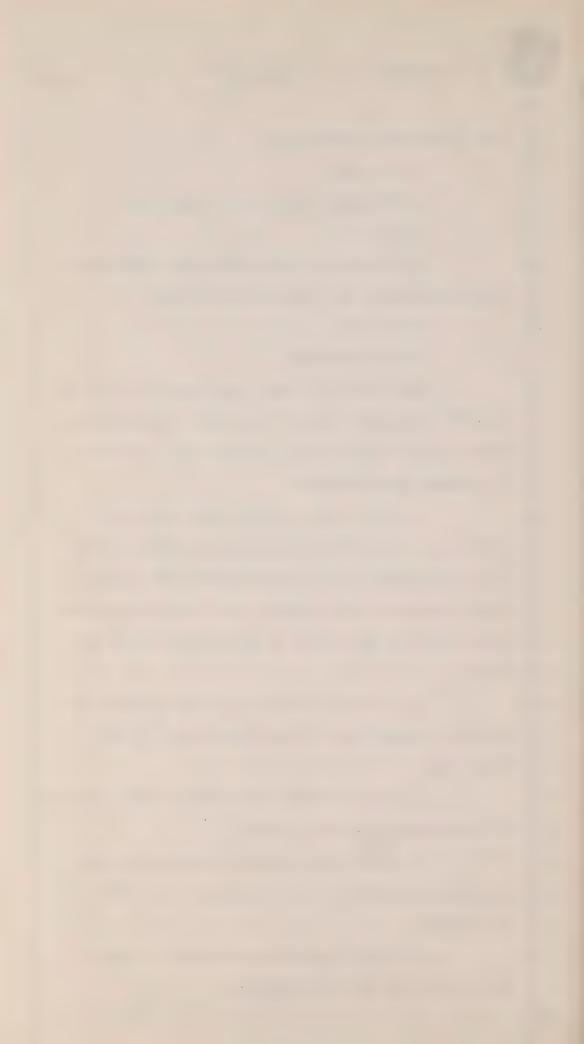
your jurisdiction in any way?

- You have nothing to do with them? Q.
- A. No.
- Q. You never discuss them with the general traffic manager of the American subsidiaries?
  - A. No. sir.
  - Q. You never do.

Well, tell me, then, your opinion of what the essential differences have been between the situation in Canada and the United States, aside from a difference in approach by regulation?

A. Well, then, you take away the major difference, sir, after all, and when you have, in the case of the grain out in western Canada 26% of your service where the rates remain fixed, why then you are taking away the major part of the railway system in Canada.

- Q. Could we discuss it in the meantime, Mr. Roberts, leaving aside the statutory rates for the time being?
- A. Well, basically the rates in both countries are predicated on moving traffic.
- Q. Yes. And as competition appeared, the railways in the United States started losing traffic to the trucks?
- A. Truck competition certainly has been a major factor in the United States.



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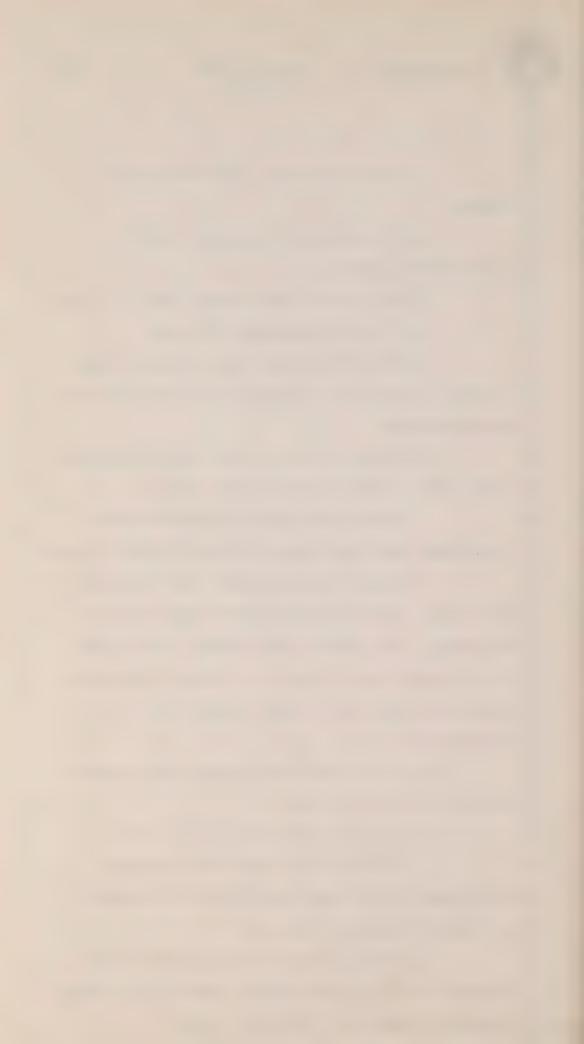
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Q. And it has been a major factor here in Canada?

- A. It certainly is growing. Truck competition is growing.
  - Q. But it is a major factor today, is it not?
  - A. It is an important factor, yes.
- Q. Now, truck competition, would you agree, involves not only the for-hire carrier but also the private carrier?
- A. That is true, I think, more in the United States than in Canada. The private carrier.
- Q. There are a number of firms that have established their own fleets of trucks in Canada, though?
- A. Well, there are people out in Vancouver, for example, who started out and did establish their own trucks. For example, Kelly Douglas did, but they in due course turned it over to a private enterprise to operate and they operate under contract rates as I understand it.
- Q. Yes. And do you know how those contract rates are arrived at at all?
  - A. No, sir. They are not made public.
- Q. Would you agree that when a company establishes its own truck line it is not interested in the value of service in any way?
- A. Well, you cannot disregard the value of service, the value of getting the product to the market whether you operate your own trucks or not.



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I would suggest to you that you would expect the company to consider just its cost of getting the goods to the market?

A. Well, it would consider the cost, that That is true, but there must be other factors associated with it than just the plain cost.

Q. Well, what would you suggest?

I will tell you a specific example in going out to British Columbia, I believe the Safeway stores operate their own trucks through Vancouver back to the Okanagan Valley and maybe over through the Kootenays? Is that correct?

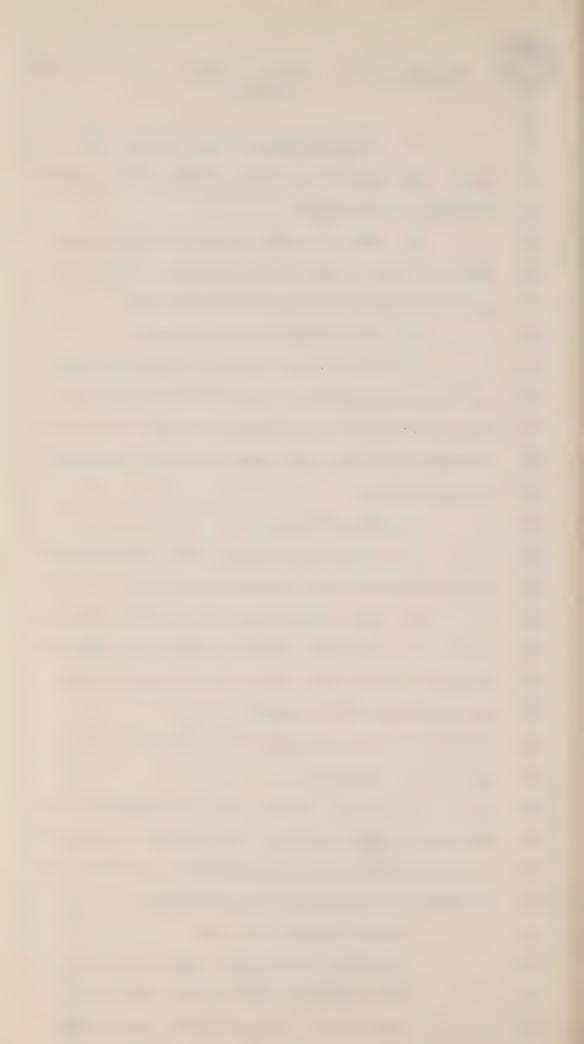
- That's right.
- I suggest to you all they are interested in is what their cost of transportation is?
  - A. Well, the overall cost, yes, Mr. Brazier.
- Q. And they are not concerned that some of the goods in the truck may be worth a dollar a pound and others worth \$10 a pound?

A. No, it is the cost of performing the service for themselves.

Q. Yes. I would like to go through some of the pages of your brief, Mr. Roberts, just a few kind of general questions, some of which Mr. Cooper may have touched upon during his cross-examination.

First, on page 2, you say:

"General revenue cases, therefore, arise when there has been a marked change in wage levels, material prices, income taxes



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or cost of money"?

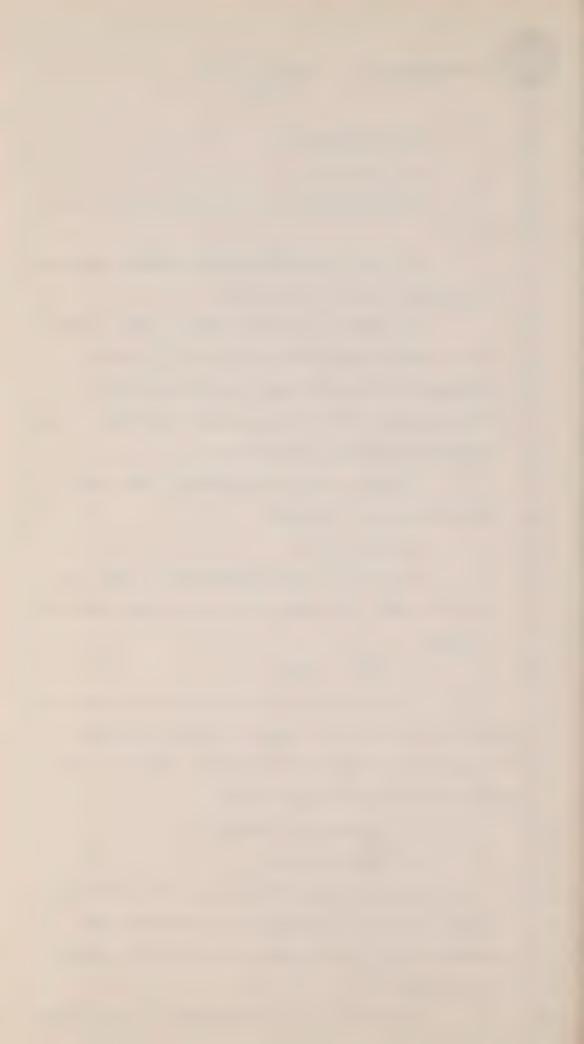
A. Yes, sir.

Q. Now, those are all cost factors, are they

A. Yes. I would say in the aggregate they are all important factors, Mr. Brazier.

For example, in any one case it might be said
that the cost of money factors may not be of prime
importance in relation to the, say, the wages, but
certainly overall cost of money is very important. It has
increased considerably over the years.

- Q. And it would be reflected in your fixed charges and things like that?
  - A. Yes, sir.
- Q. And it, too, is an increase in cost. It is cost of money, and others are cost of labour and cost of material?
  - A. That is right.
- Q. And would it be true to say that since the end of the war all of the general increases that have been granted that he had reason, granted or even applied for because of that reason?
  - A. Because of the reason of?
  - Q. Increased costs.
- A. Increased costs, yes, sir. But reflected in that, of course, too, would be in evaluating the situation at the time you make the increase the change in the traffic mix.
  - Q. Have you ever mentioned that in any general



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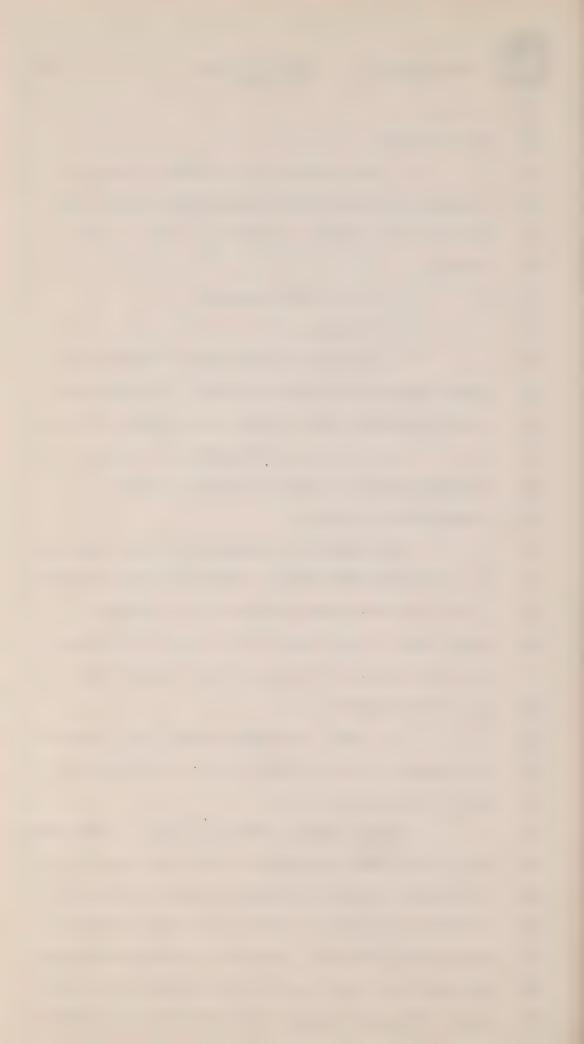
rate increase?

- A. No, we have not, sir, but it would be inherent in the application in dealing with the base on which the increase is asked for. That is, the revenue.
  - Your revenue picture?
  - Yes, sir.
- Q. Now, you use this phrase "traffic mix". quite frequently through your brief. I wonder if you could just define that a little more precisely for us?
- A. It is the constituents, all of the movements that go to make up the whole of the transportation picture.

For example, Mr. Brazier, up until four years ago, there was very little - there was little sulphur produced in the Jumping Ford field at Cochrane. Within the last four years, as a result of the natural gas pipeline, there is more and more sulphur being produced in Alberta.

So, there is a change in your mix. You have an increase in one particular set of commodities you did not have before.

Another example would be potash in Saskatchewan. Now, we did have a movement of potash last year, quite considerable, and we had hoped it would be continuing into this year, from a place called Potasco, which is just east of Saskatoon. We had a considerable movement last year, but they ran into difficulties in the main shaft with water seepage, and it has been closed down,

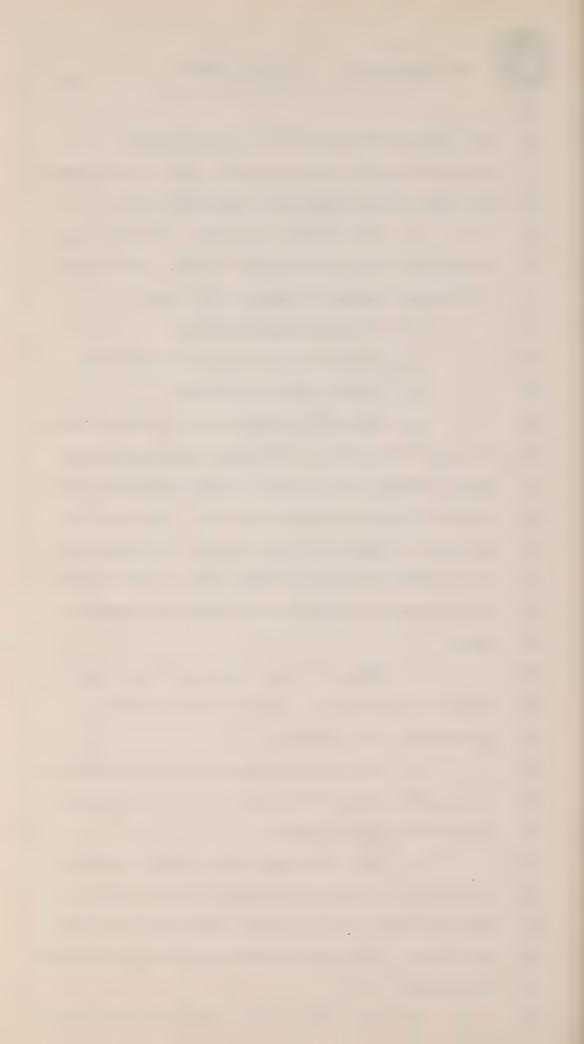


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Q. Yes. Now, in your general increase cases

- but they are confident they will overcome that particular problem and potash will start to move again.

  Now, these are all changes in the traffic mix.
- Q. Then, would it be true to say that your traffic mix changes from month to month, year to year; it is always subject to change, is it not?
  - A. It is a changing picture.
  - Q. It is subject to change all the time.
  - A. It is a changing picture.
- Q. Would the Canadian Pacific Railway think of going to the Board of Transport Commissioners and saying, we have had a change in traffic mix; therefore, we want an increase in freight rates. Our wages have remained the same, our cost of money is the same, and our material prices are all the same, but our traffic mix has changed and therefore we need an increase in rates?
- A. Well, I would not go so far as to say we would or we would not. It would depend upon the circumstances, Mr. Brazier.
- Q. You actually are hesitant to say that the C.P.R. would not go to the Board for an increase under circumstances such as that?
- A. Well, you would have to look at the -to look at our earnings and the permissive level of
  earnings in relation -- the two things in relation to
  each other. And it would depend upon the circumstances,
  Mr. Brazier.



the shipper is concerned?

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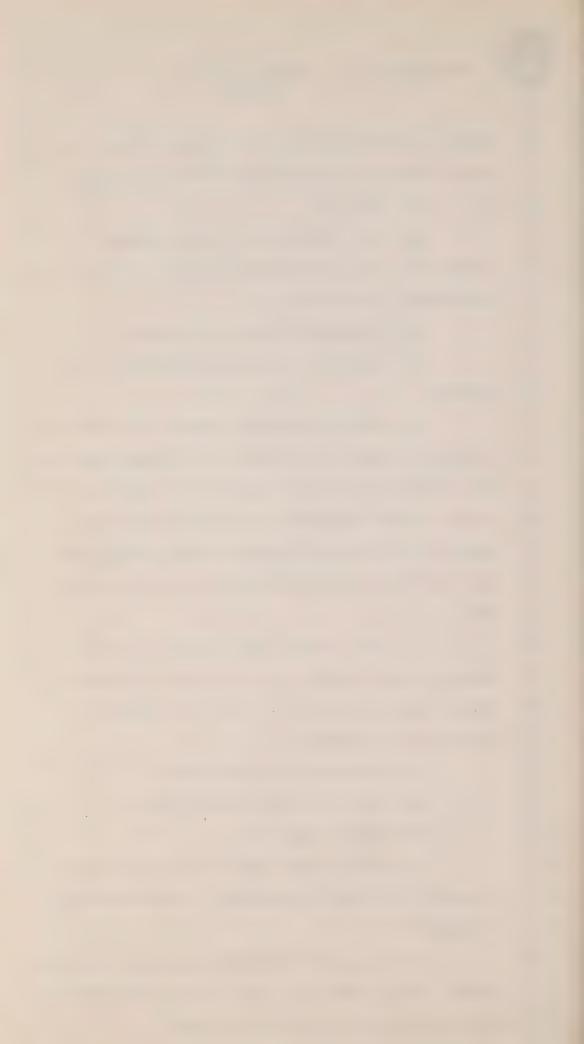
A. Yes, sir.

Q. When that phrase is used in general freight rate cases, what connotation has it so far as

must be fair to the railway and fair to the shipper?

you and I both heard many times a phrase that the rates

- A. The rates be fair to the shipper.
- Q. Well, who are you speaking about? The shippers?
- A. Well, in the fimal analysis it is the cost of moving the goods, Mr. Brazier. Who actually pays the cost of transportation is a question that has been a question of some considerable discussion around here; whether it is the actual shipper or the consignee, the fact remains that transportation is in the price of the goods.
- Q. What I would like to know is are you speaking of the shipper as a whole body of shippers in Canada or are you referring to a specific shipper in various parts of Canada?
  - A. The shipping body as a whole.
  - Q. That is all you are referring to?
  - A. That is right, sir.
- Q. And you never examined the situation to see whether is is fair to individual shippers or groups of shippers?
- A. Well, we are examining them every day, Mr. Brazier. People come to us every day with rate probles and we are dealing with them all the time.



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- Q. That is in between increases, I suggest to
- A. And immediately after.
- Q. And immediately after?
- A. Yes, sir.
- Q. Your theory is that you put the increase on all rates and then you start negotiating thereafter?
- A. Well, this is the fairest way of doing it,
  Mr. Brazier, in that if there are any difficulties we
  are certainly prepared to examine them afterwards.
- Q. Now, over the last -- well, since the post-war increases started, the amount of class rated traffic which you have handled has gone down, has it not?
  - A. It has reduced in volume.
- Q. Give me the approximate range from 1948 to 1958 -- that ten year period? What are the degrees in the volume of your class-rated traffic?

MR. SINCLAIR: By revenues, or by tons?

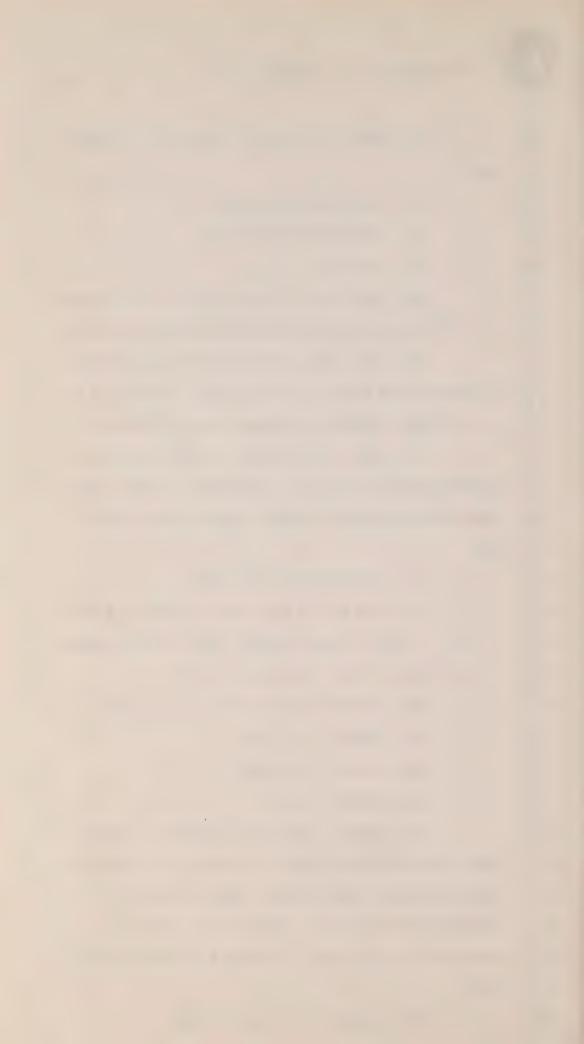
MR. BRAZIER: By tons.

THE WITNESS: By tons?

MR. BRAZIER: Yes.

THE WITNESS: Well, now, these are figures taken from the Board's Waybill analysis, and when the Waybill analysis first started out, it was on a different basis than now. You are not actually comparing like with like. I think you have to go to 1951.

MR. BRAZIER: Q. That is fine.



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A.	And	in	terms	of	weight,	it	was	4.1%.

Q. How many tons does that represent?

- A. 47,566.2.
- Q. Tons?
- A. That is tons.
- Q. Have you got the 1959?
- A. In 1959 it was 12,977.6, 1.7%.
- Q. 1.7%?
- A. Yes.
- Q. Those figures indicate loss in class-rated

traffic?

A. Not loss; move to other types of rates, Mr.

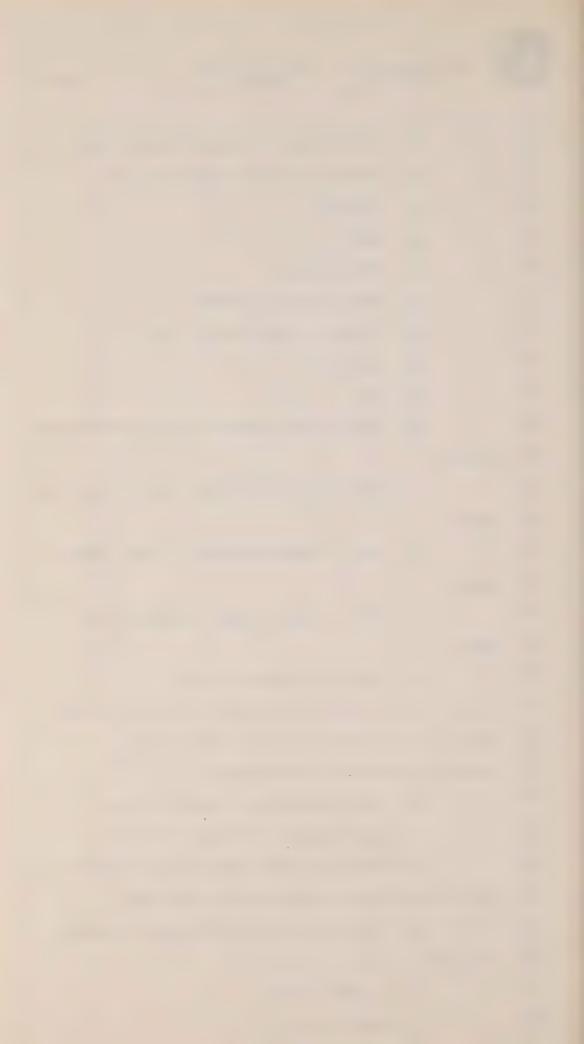
Brazier.

Q. Some of them have moved to other types of

Rates?

example.

- A. That is right. Normal commodity, for
- Q. Some went to trucks, too?
- A. I would not say that some went to trucks.
- I would say some went to movement under trucks comparitive rates and agreed charges.
  - Q. Would you deny some went to trucks?
    - A. Oh, some went to trucks.
  - Q. There are at the present time by tons only
- 1.7% of your traffic shipped under class rates?
- A. That is according to the Board's Waybill study, yes.
  - Q. Is that correct?
  - A. That is right.





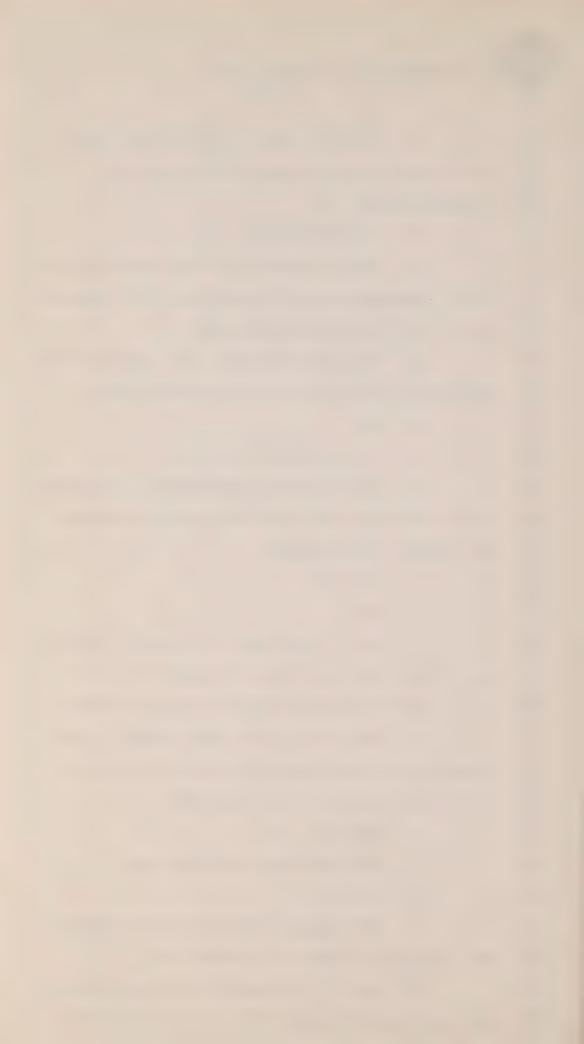
## ANGUS. STONEHOUSE & CO. LTD. Roberts, er.ex. (Brazier)

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Q. You are quite satisfied that the present rate structure in Canada is a complex one?

not understand it because, after all. in Initiar, we

- Q. In view of that, would you still aftere to the opinion that the class rates are just and reasonable rates?
  - A. I certainly would, sir.
- Q. Good. And would you think that the class rates, the revenue from the class rates here marinized they are held at their present level?
- A. The revenue from the class rates is being maximized if they are held at their present level?
  - Q. Yes.
  - A. I would say yes, they are.
- Q. Have you ever investigated to see whether or not your class rates could be reduced to maximize your traffic? The revenue?
  - A. Reduced?
  - Q. Yes.
- A. Well, I would say, Mr. Brazier, that the net revenues have been maximized through the use of normal commodity rates and competitive carload rates.
- Q. Now, have you ever done a study to see whether or not your revenue from class rates could be increased by lowering those class rates?
  - A. No, sir.
  - Q. You have never considered that?
  - A. No, sir.



are handling the full range and compass of this country in this. We are handling fresh veretables, we are handling dry vegetables, and vegetables fresh or frozen. We have to make provision for all these different types of commodities and materials.



Q. On page 4 you make the flat statement

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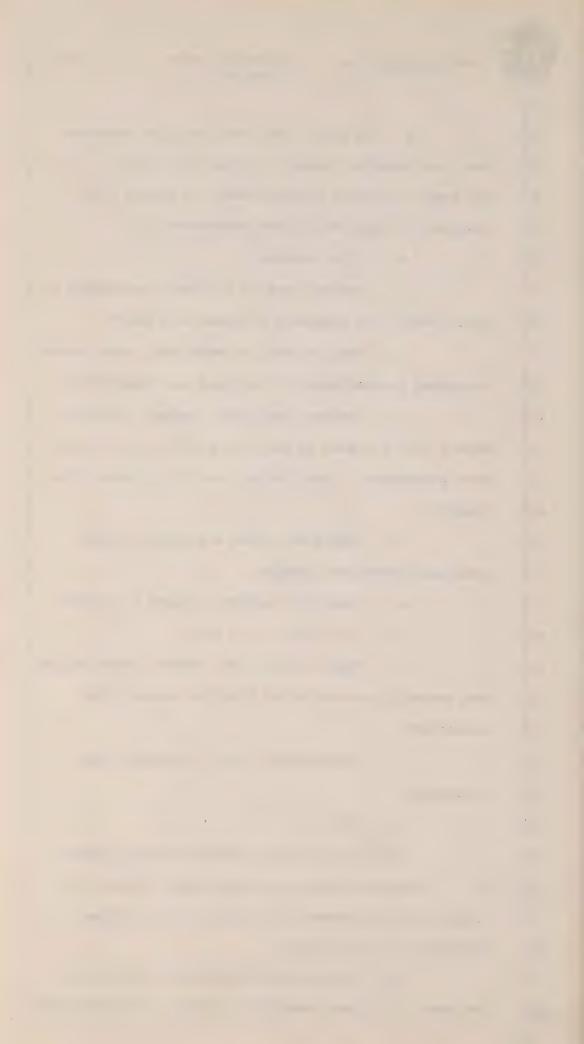
you want to cla	arify that statemen	t by saying it is
complex for the	ose who do not unde	rstand it?
Α.	It is complex.	
Q.	And you have to fi	le many amendments

that the Canadian freight structure is complex. Do

to your tariff on thousands of rates each year?

A. That is true, we make many, many changes according to conditions of carriage and competition.

- Q. How many individual changes, approximately, did you make in the last year in your present rate structure? Just let me have it in rough round figures.
- A. During the first six months of this year there were 2200 changes.
  - Twenty-two hundred changes in rates? Q.
  - Yes, 2242, to be exact. A.
- Would you say, Mr. Roberts, that railway Q. men generally are satisfied with the present rate structure?
- A. Are satisfied with the present rate structure?
  - Yes. Q.
- We are always endeavouring to improve I would not say we are satisfied, because by it. improving it we endeavour to improve our position netwise, net revenuewise.
- Q. But generally speaking railway men do not want to see any fundamental change in the structure?



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MR. BRAZIER: Q. Yes, leaving out grain. A. This system has been tested over the

MR. SINCLAIR: Leaving out grain.

- years and we think it mests the requirements of the country.
- Q. And is that opinion as you generally find it in railway circles both here and in the United States?
- There are a lot of railway men in the United States and I cannot speak for them, I can only speak for our people in the Canadian Facific and I think I can go along and say the Canadian Wattonal toc.
- Q. I would like to read to you out of Transportation Week. This is the issue of September 24 -- I beg your pardon, it is Traffic World of September 24 of this year, and it is a statement attributed to Mr. H. H. McLean, vice president and general counsel of the Pittsburgh and Lake Erie Railway Company.

MR. SINCLAIR: He lost the job with the New York Central and ha is just into a branch line now.

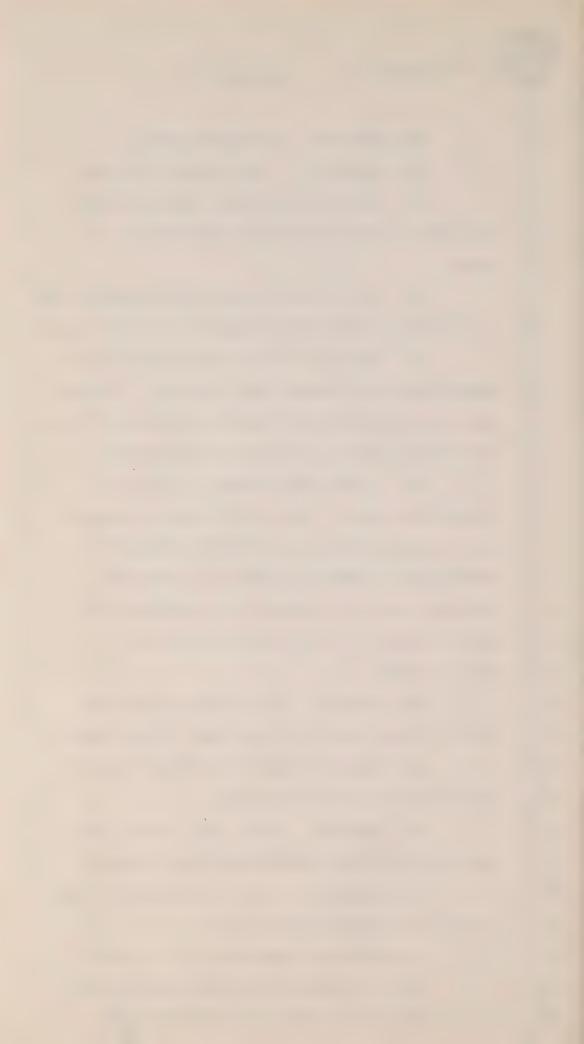
MR. BRAZIER: Maybe it was because the New York Central were immune to changes.

MR. SINCLAIR: If you take a look at their history you will find they have made many changes.

MR. BRAZIER: Q. Well, just listen to this and see if you agree with it or not:

> "Intercarrier competition has, of course, had a tremendous effect upon railroad rates. Railroad men used to speak of the trite

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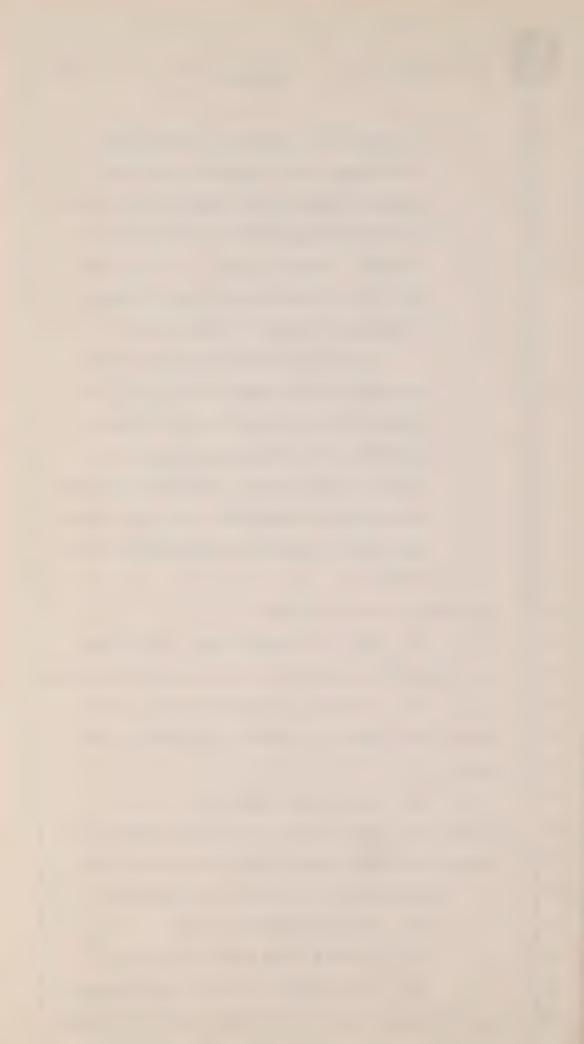
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structure as a system of related rates and charges that represented intricate adjustmentstymsed won value of the article. distance transport and a host of other factors. There is still a rate structure but it is a tottering one and is rapidly changing in response to competition.

"You can all remember the theory of charging what the traffic would bear, or, saying the same thing from the railroad point of view, charging according to the value of the services. This meant that the more valuable commodities paid higher rates and the less valuable commodites paid lower rates."

Now, would you agree with that?

- A. Well, of course, first, and with all due respect, the vice president is also general counsel.
- Q. He is not a practical traffic man -- I suppose that leaves Mr. Sircisin and myself out completely?
- A. He certainly emphasizes the value but the value has been one for for it rate making only and there are other factors that are secreted with it. I would say he is entitled to his opinion.
  - Q. You do not agree with it?
  - A. . I do not agree with it, no, sir.
- Q. In your brief, or one of the Canadian Pacific Railway briefs, it is stated that the Canadian



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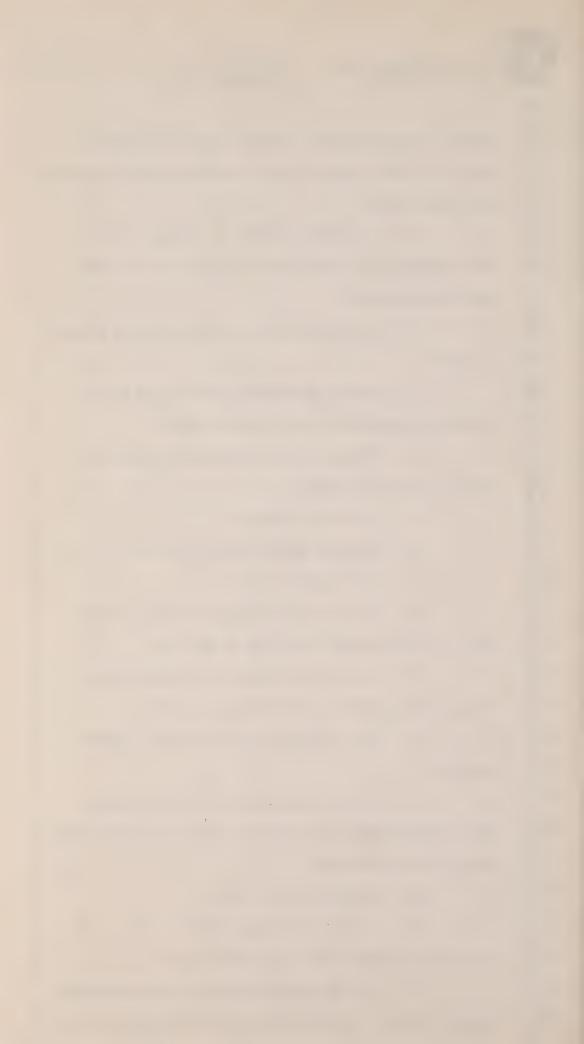
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	Α.	I would	say tha	t is c	orrect -	it is
is that	correct	?				
service	of any	railway	on the	Nirin	American	continent
racilic	nallway	ISAS CIT	2 - J E 110	* su R z	85 L. 8831	FOR K

- A. I would say that is correct -- it is the largest of any individual carrier on the North.

  American continent.
- Q. So you could say they have been leaders in this?
- A. Well, we started three years ago and overhauled carriers in the United States.
- Q. They actually started the practice before you did in Canada?
  - A. It was in before.
    - Q. And you adopted their practice?
    - A. In essence, yes.
- Q. Now, on your piggyback what are your rules as to the goods that can be put in?
- A. You are speaking of Canadian Pacific Railway owned trailer and flatcar service?
- Q. The service you give to the common carrier.
- A. Well, the common carrier, we carry
  the common carrier stratter and what is inside of the
  trailer we do not know.
  - Q. And you do not care?
- A. I would not say we do not care. We would like to know what is in there but ---
- Q. As far as performing the transportation service you are not concerned with the contents of it



at all?

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A. So far as the transportation service is concerned we carry the loaded trailer.

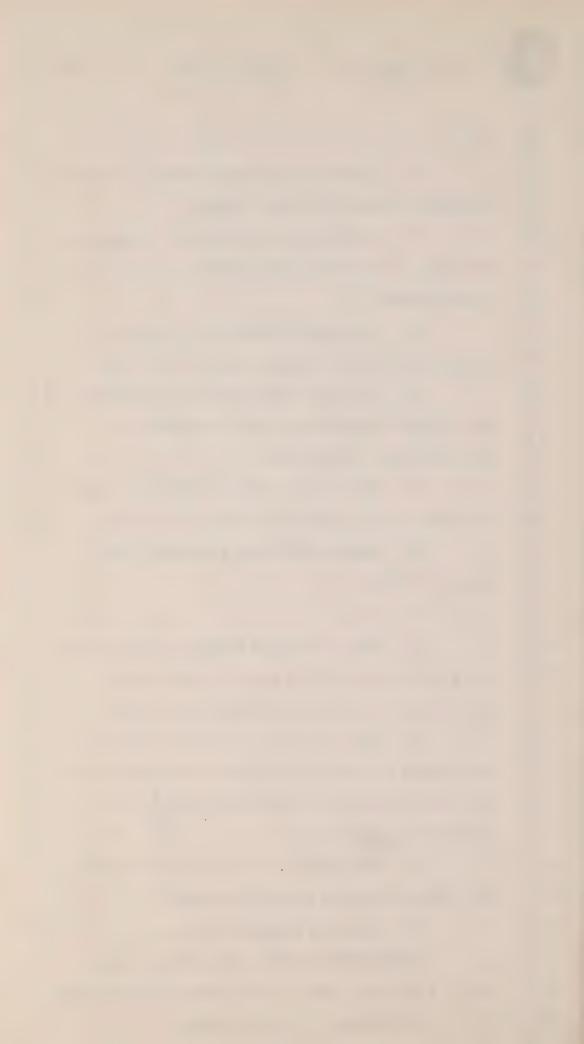
Q. And you pay no attention, I suggest, to the value -- the varying value of the goods that are in the trailer?

A. We carry the goods, Mr. Brazier, according to what we term the over-the road dost.

- Q. Therefore your piggyback structureis one that is made irrespective of the transportation characteristics of the goods?
- A. Well, it is another instance of where we are endeavouring to maximize revenue, net revenue
- Q. And you find that profitable, this piggyback service?
  - A. Yes.
- Q. And you are not having to concern yourself with the value of the goods in the trailer. There might be some shoes and there may be some
- A. Wait a minute -- there are certain restrictions in respect of losurance now that are not our responsibility in so far as the value of the contents is concerned.
- Q. But outside of the insurance you are not concerned with the value of the goods?
  - A. We carry a loaded trailer.

COMMISSIONER BALCH: Supposing it was a load of explosives, that is not allowed under the Act?

THE WITNESS: That is right.



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COMMISSIONER BALCH: So you would have to

THE WITNESS: They would have to placard it, yes.

MR. BRAZIER: Q. Well, the piggyback service is a very definite departure from the old method of making freight rates?

A. It shows, Mr. Brazier, that we are endeavouring to make money in every possible respect.

Q. A very laudable objective. The same page, the next paragraph, you say:

"A freight rate structure must be realistic.

The test of its realism is that it moves

traffic freely."

Now, what standard do you have by which you judge traffic is moving freely or otherwise?

A. By our field men watching the flow of traffic and noticing any fall-off.

Q. You take an industry that has a crop
that has to be marked, a peristable crop—let us take
the Okanagan fruit growers, you have had a lot to do
with them in the last few years?

A. Yes.

Q. They are always complaining about the high rates you charge?

A. That is their story.

Q. You do not agree with them?

A. No.

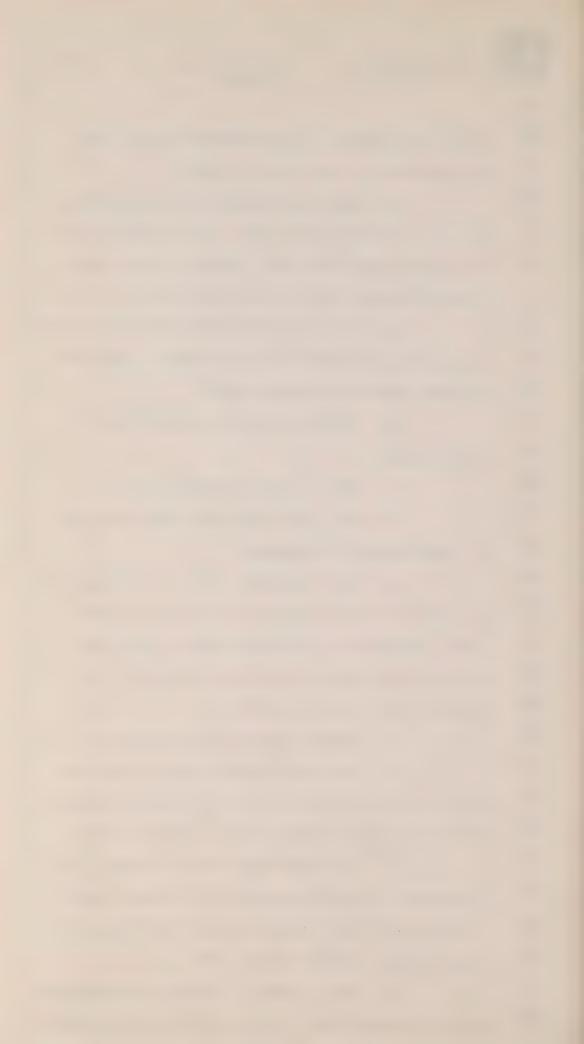
Q. Take their position. I think you



realize the industry in the Charager has not been very profitable in the last few years?

- A. Depending upon the size of the crop.

  They had a poor crop last year I do not brink they did too well, but this year I think they had a good crop and they are anticipating good returns.
- Q. Well, now, these people who have to move a crop, they just have to pay your rate. Would you say that traffic is moving freely?
- A. It does move freely according to the market demand.
  - Q. Tell me what you mean by that?
- A. Well, they cover the market, they fill the requirements of the market
- Q. But if they had a free -- if they were not forced into the position of having to ship the fruit becauseof its perishable hattire, would you say from their point of view that is traffic that is moving freely on the railways?
  - A. You are getting away from me here.
- Q. Let me put it this way: you use that term as long as traffic moves. The rational regard. less of the post of duing it. It is noting freely?
- A. No, we want the flow of traffic. We have people out at Vancouver in the Okaragan Valley so far as the fruit crop is concerned and they are assessing the movement and the time.
- Q. And as long as it moves on the railways during the market tree you are satisfied it is moving



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A. Yes, because they would tell us if they were in trouble.

freely?

moved.

Q. Well, they have been telling you that in the Okanagan for quite some years?

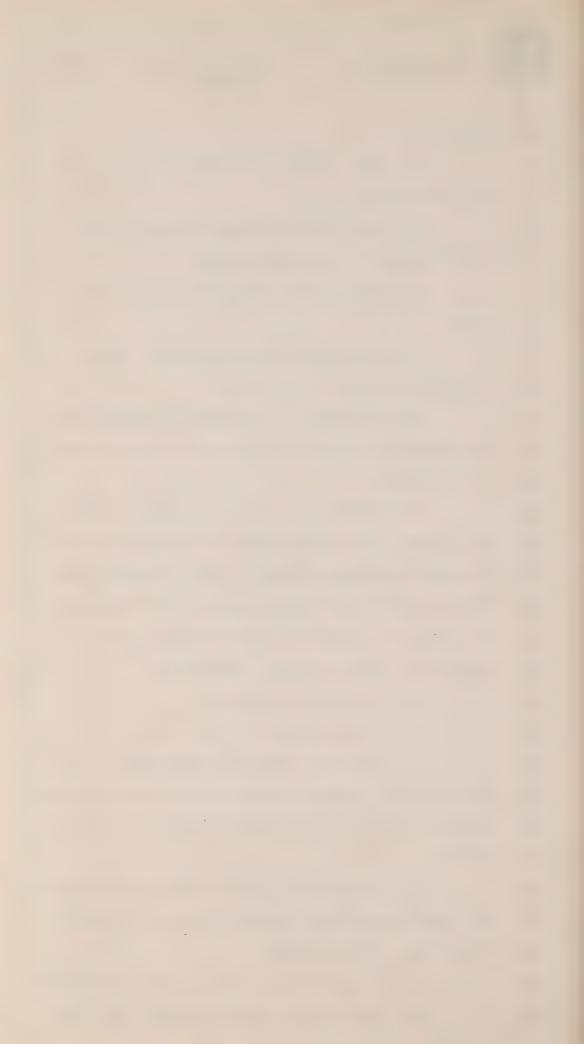
A. Yes, and every year the crop has been

CONMISSIONER GOBEIL: By "freely" you do not refer to price?

THE WITNESS: I mean freely in so far as we are concerned in relation to the total crop, the flow of the traffic.

MR. BRAZIER: Q. Now, Mr. Roberts, I have some figures here from the Bureau of Statistics on the intercity ton miles performed by type of carrier 1948 through to 1958 which indicate very clearly that the per cent of the intercity traffic handled by the railways has been continually decreasing?

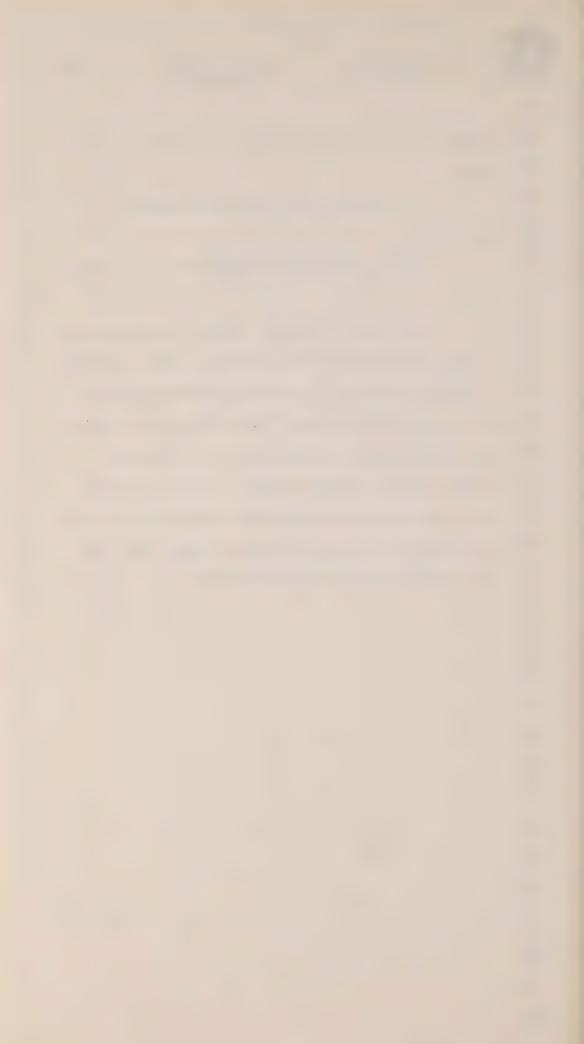
- A. You mean percentagewise?
- Q. Percentagewise?
- A. Well, of course, we started with a lot of traffic and the trucks started with a very small portion so their growth percentagewise, I suppose, would be greater.
- Q. I am thinking of the total of the traffic, they have been getting a larger and larger portion of it each year, is that right?
  - A. I do not know. You have the figures there,
  - Q. Here is the figure on rail in 1948 which



is 70.3% of the intercity traffic. By 1958 it only had 58.3%?

A. Is this eliminating such things as pipe lines?

- Q. No, this includes pipe lines and everything.
- Q. Well, of course, you have the pipe line in existence now that did not exist in 1948. In 1948 all of your crude oil in western Canada moved in by rail from the United States but Alberta got the Leduc field and we started from there and it is moving by pipe line into Eastern Canada. At this time the crude was brought in by ship from overseas and now all these would be factors. You have a bigger pie, and these different forms of transportation.



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traffic away from the railways?

A. But they took this traffic from the industry as it developed; that is what I am getting at.

Q. I thought we just established the fact

Q. And you have not lost any traffic to the trucks?

A. Of course we have, that is quite right.

The pipe lines are participating in it.

ANGUS, STONEHOUSE & CO. LTD.

- Q. Are you trying to say to me that percentagewise the railways are not losing
- A. Percentagewise our proportion of the total traffic is lower.
  - Q. Is lower?
- A. I just do not want factors such as these to be overlooked, that is all.
- Q. I appreciate that a lot of adjustments
  have to be made in general figures like this but it is
  my suggestion, and I think we have had it from very
  senior railway officials before this Commission that
  the trucks have made a great inroad on the traffic of
  the railways during the last few years?
  - A. That is true.
- Q. So obviously that traffic which the trucks took away from the railroads was not moving freely on the railways?
  - A. I would not say they took it away at all.

    This is traffic that has grown with the country and which for various reasons they have taken.

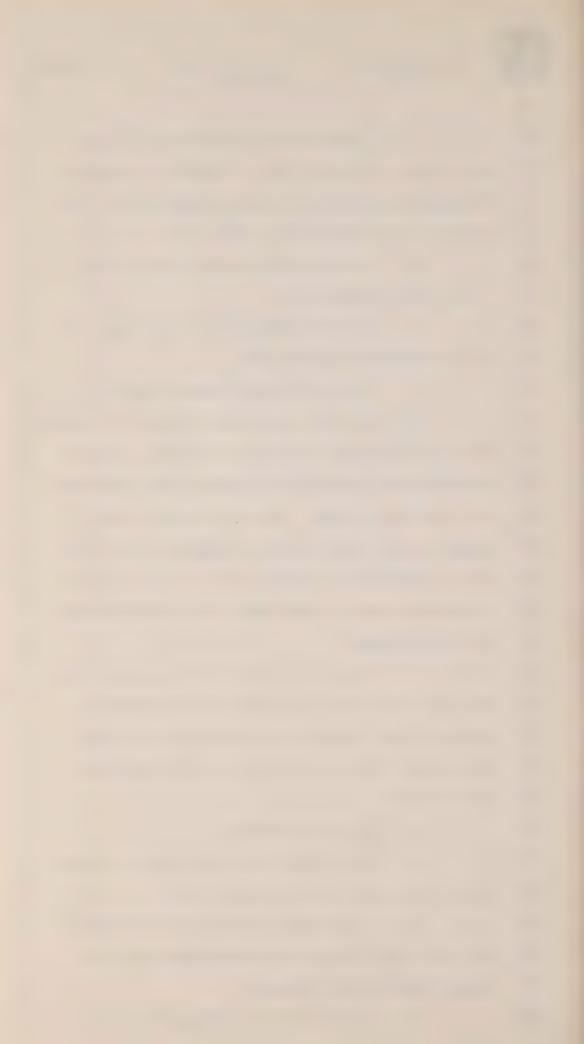
that the trucks over the last ten years took a lot of



A. Well, if we were handling it it must

	Q.	Whate	ver th	e perc	entage	is,if i	ltis
one per	cent	or ten	per ce	nt, I	suggest	to you	ı that
that tra	iff1c	was app	arentl	y not	moving	freely	on the
railway	or yo	u would	not h	ave lo	st it?		

- A. I would say it was not moving at all, a lot of it is new traffic.
- Q. You just said you have lost some traffic which you formerly had?
  - A. We have lost some traffic, yes.
- Q. You lost some traffic which you formerly had so let us concern ourselves with that. Traffic which you have lost which has actually been taken away from you by the trucks. Now, dealing with that segment of the traffic alone. I suggest to you that it was apparently not moving freely on the railways or else you would not have lost it to the other forms of transportation?
- A. I would say the traffic moving by truck moved by truck, some of it, for certain reasons of service or the fact that it is going to off-track deliveries. There are all kinds of features that enter into it.
  - Q. I appreciate that.
- A. And we have lost some traffic to them because they may be quoted a lower rate.
- Q. I am trying to see if you will admit that the traffic that you lost apparently was not moving freely on the railways?



TORONTO, ONTARIO

have been moving.

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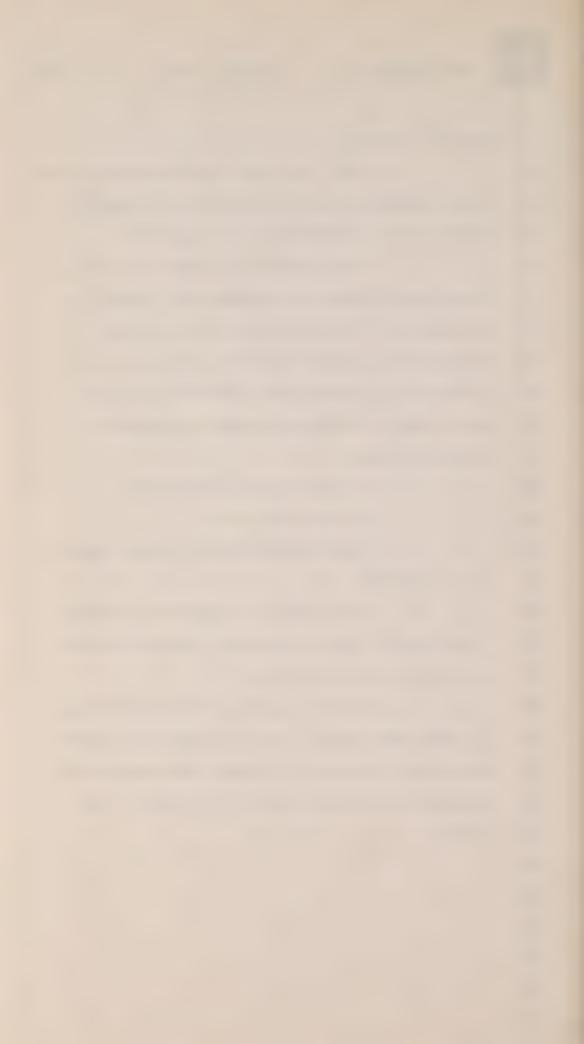
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Q. Now, I think this is another one of your basic suggestions that the whole field of traffic

handled by the railways today is competitive?

- A. There is mone of it that is -- it is competitive in some way or another, Mr. Brazier, it is competitive by reason of the fact that other transportation agencies could enter into it, it is competitive by reason of the fast there are alternative types of production or maybe alternative sources of supply.
  - So everything is competitive?
  - I would say so, yes.
- You certainly do not flag your tariffs 0. at all that way?
- A. Well, they are competitive because as I say there are other factors than transportation in some extent that enter into it.
- Q. Now, at page 8 you made some reference to a department store. Would you think in a department store if the price of ladies shoes went up the department store would increase the price on corn flakes?

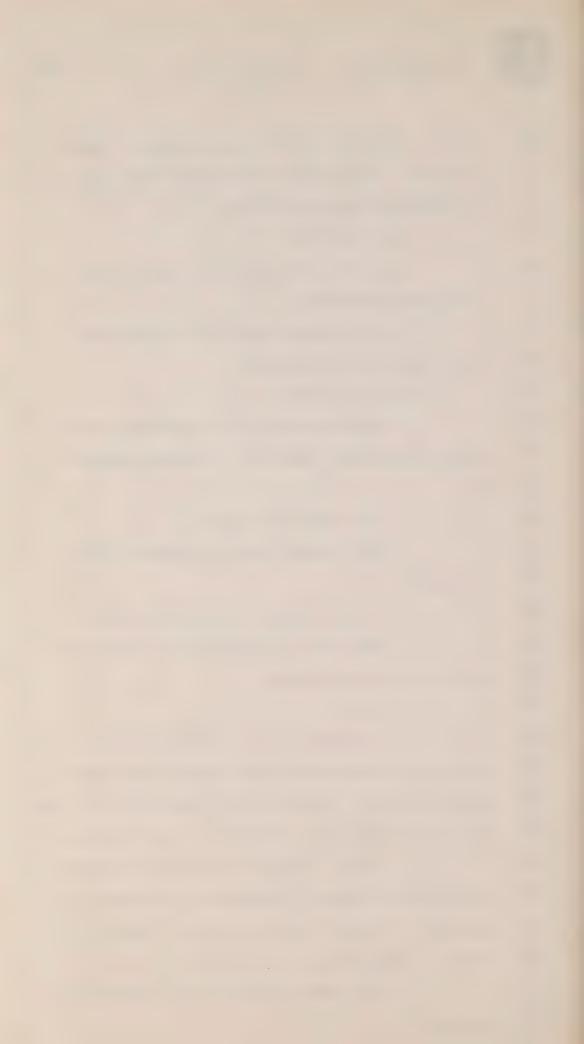


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ton-mile?

A. Well, you are dealing with one specific commodity. I am talking here of wage costs which would be spread over the entire store.

- Q. Over every ~--
- A. Well, I would say they would attempt to get it from everything.
- Q. Do you know anything in a department store that is not competitive?
  - A. Not offhand.
- Q. The do not have any particular part of their business where they have a monopoly position at all?
  - A. Not that I can think of.
- Q. But you say that is the same as the railways?
  - A. I say they use the same principle.
- Q. But their circumstances are exactly the same as your circumstances?
  - A. Yes.
- Q. On page 9 you say there is a wide variation in contribution over variable costs made by different rates: I wonder if you could give me in broad outline the variations? How wide is this variation?
- A. Well, I think that the Board's Waybill study would be of some assistance in the revenue per ton mile we obtain from the different types of traffic. To pinpoint, I do not know.
  - Q. You make reference to the revenue per





costs?

A. Yes.

Q. I am asking you about costs -- not revenue. You are not referring to revenue here. You say that a wide variation in the contribution over variable cost -- frankly, I fail to see any relationship between revenue and cost, and I want to know, in this cost, what is the variation?

A. Well, it is the contribution from certain types of traffic above variable.

Q. I appreciate that, but I want you to tell me that it varies in some cases from 1% to 100% or 400 or 500 -- what is the range of variation?

A. I would say it would go as high in some instances as 300, maybe 400%.

Q. 300 or 400%?

A. Quite possibly, and down to a range of above variable costs.

Q. It is fundamental to the rate structure as it exists now that no traffic goes below variable costs?

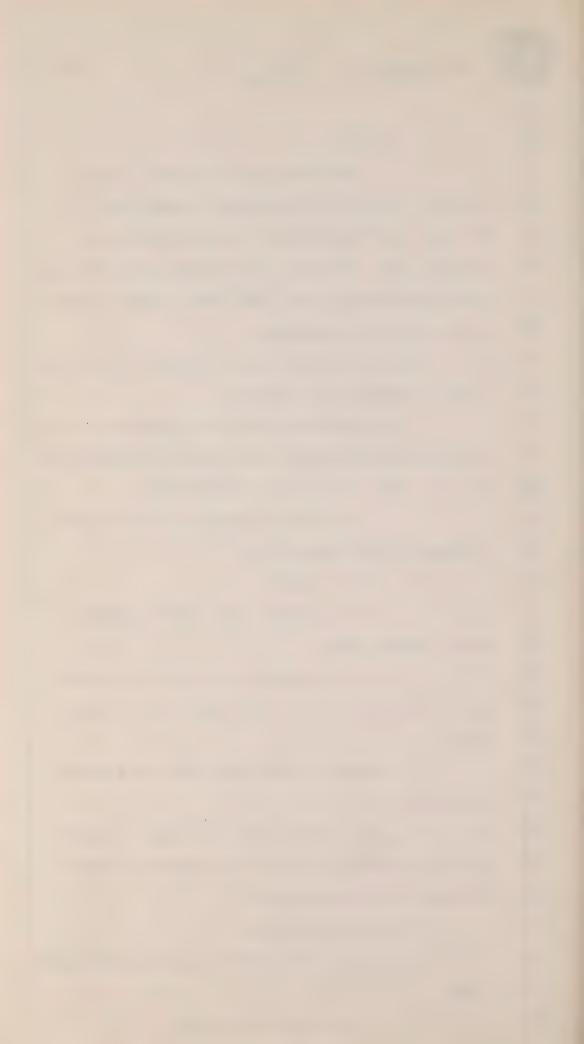
A. That is right, other than the statutory grain rates.

Q. So, in that respect you have no quarrel with the proposition put to this Commission by the province of British Columbia?

A. The fact that ---

Q. ... no rates should be below out-of-pocket

A. I would agree with that.



Q. Yes, and you would have no objection to

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Q. So, you would not be hurt by that at all? No. sir. A.

that being made a rule because you follow that now?

A. We follow it now.

How often do you check your bodies of rates to see whether or not they are below out-ofpocket costs?

A. Well, it is a continuing process, Mr. Brazier, in meeting competition. So far as normal rates are concerned, this is one example here in connection with statutory grain that is before the Commission now, and I have started a short time ago a complete study of all of the traffic moving at commodity mileage scales to assess the revenue from those scales.

What about competitive rates?

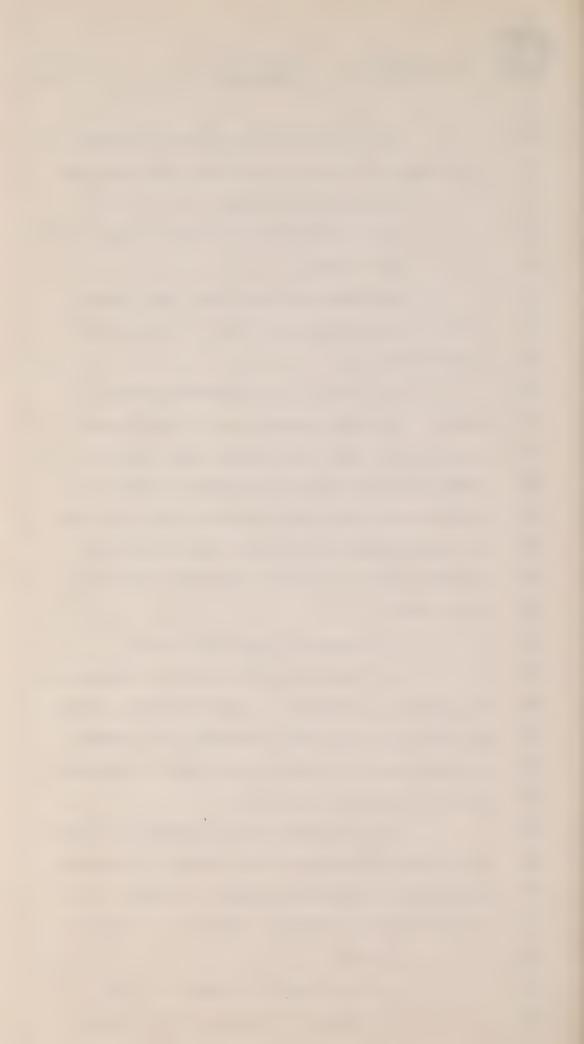
Competitive rates should be examined in A. the light of competition. I guess they are examined when they are established, certainly, Mr. Brazier, and subsequently if there is any cause for suspicion at all in connection with them.

Q. Mr. Roberts, I have worked out a little table here in reference to your tariff E 1355-F CTC 5253. It is a competitive tariff, I believe -- all types of general commodities, Montrea to Toronto?

> Yes. A

The mileage as I have it is 335? Q.

A. Montreal to Toronto, that is right.



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Q. I have listed down the rates, and of course, unfortunately, I do not know your costs, but I have taken out of the ICC cost study their out-ofpocket costs both for 300 and 400 miles and for the various minima.

MR. SINCLAIR: What ICC costs? Average costs by district?

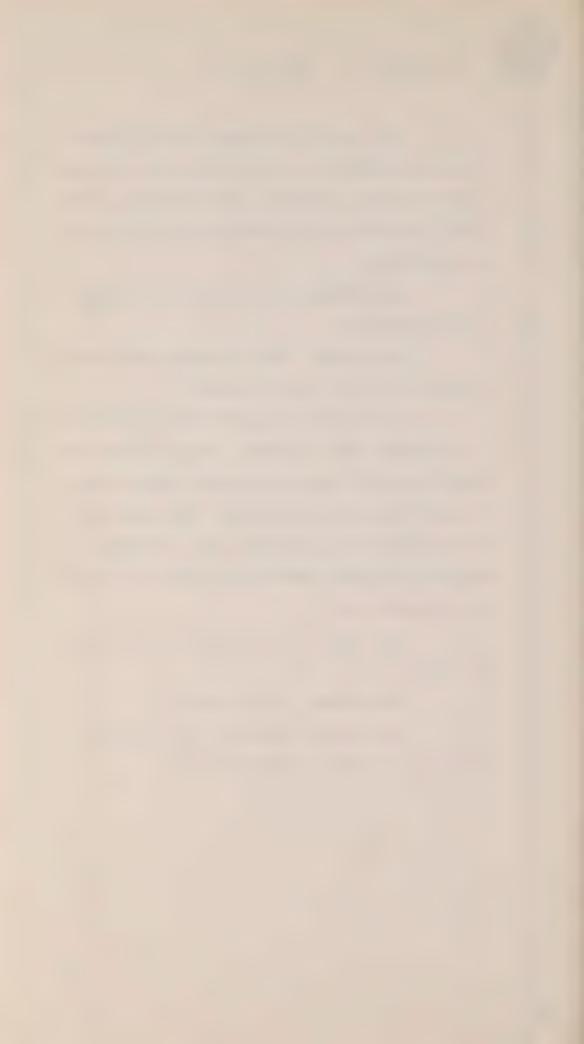
MR. BRAZIER: This is average costs for the western districts -- out-of-pocket.

Q. I wonder if you would look at that table -- the eastern ones, of course, would be higher than that; the costs in the east would be higher -- oh, I am sorry: these are the eastern. The comparison of the rates you charge and these costs indicate, except at the 60,000 pounds minimum, your rate is below their out-of-pocket costs?

MR. SINCLAIR: We will never follow this on the record.

MR. BRAZIER: I will file this.

MR. COOPER: Perhaps Mr. Brazier could identify the columns by numbering them.



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Tariff E 1355-F

CTC 5253

Item 2220

July 4, 1960.

All types of General Commodities.

Montreal & Toronto.

335 miles

out-of -pocket cost.

Min.	Rate	300 miles	400 miles
20,000	45 <b>¢</b>	72.3	84.3
24,000	40¢	61.1	71.4
30,000	38¢	5000	58.4
40,000	36½	3 <del>8</del> +8	45.5
60,000	<b>3</b> 3½	27-7	32.5

\* Eastern District Box Car, 1958. 40% empty return.

ICC Statement 2-59.

MR. BRAZIER: Q. Taking one or two instances here where the minimum weight is 20,000 pounds, your rate is 45¢?

A. That is right.

Q. And this cost study shows -- I put it to you, and you can check it later -- that at 300 miles the out-of-pocket costs are 72.3¢.

A. In the United States?

Q. Yes.

A. Yes.

Q. The eastern. For 400 miles they are

84.3¢?

A. I will accept that.



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group (A) of 30¢? 30

	Q.	Likewis	e, tak	ing just	one	other	example,
30,000	minimum	, the r	ate is	38¢?			

A. That is right.

And their out-of-pocket costs show 300 0.0 miles at 50¢, and at 400 miles, 58.4¢?

> That is right. A.

Are the out-of-pocket costs of the Canadian Pacific that much lower than the American out-of-pocket costs?

A. Well, that is something that I do not feel I should answer here, Mr. Brazier. Those are average costs and I do not know the basis for them. There may be three or four railways involved in them. I do not know.

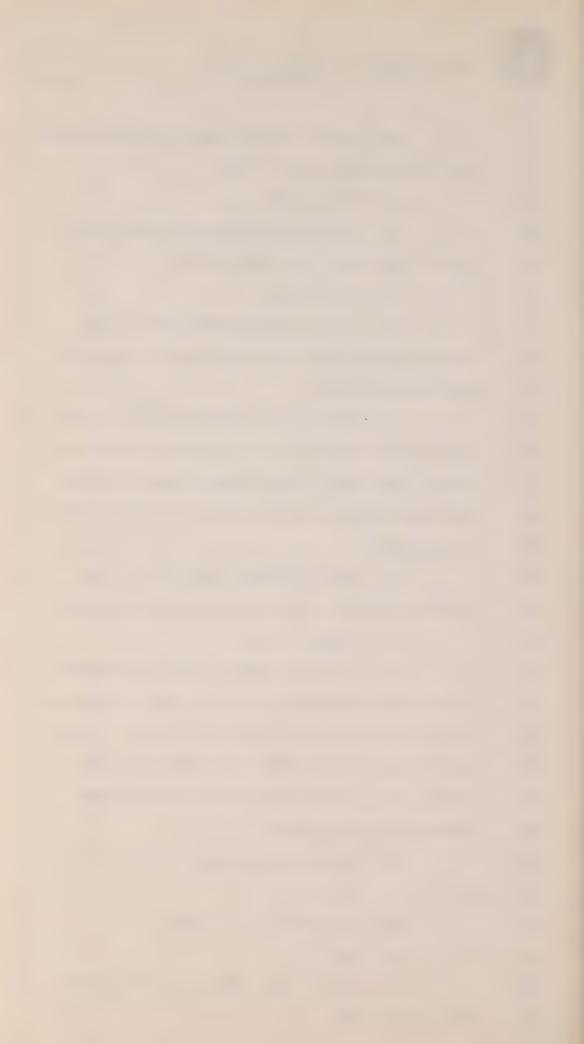
Q. Have you tested that tariff to see whether or not it is above your out-of-pocket costs?

A. We know it is.

I have one other -- and I do not want to leave the impression this is all east, Mr. Roberts. I have one here in the province of Alberta: I have got the C.N.R. tariff here between Edmonton and Calgary, and I suppose your tariffs are the same between those two points?

A. I would say they are -- rates are the same.

- A distance of 195 miles? Q.
- Yes. A.
- And you have a rate at 24,000 pounds in Q.



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A.	I	will	accept	that

- Q. Loaded in box cars?
- A. Yes.
- Q. My information is that the ICC out-ofpocket costs for that distance, that weight is 2.2¢.

MR. SINCLAIR: Mr. Chairman, I must object again. The ICC cost for that distance is not in Alberta.

MR. BRAZIER: We have not got the C.P.R.

MR. SINCLAIR: And as far as I am concerned you are not going to get them.

MR. FRAWLEY: If we had yours we could check them.

MR. SINCLAIR: Well, you are not going to get them.

MR. FRAWLEY: That is your attitude, and that will continue.

MR. SINCLAIR: Absolutely.

MR. BRAZIER: Q. 30,000 pounds, the rate is 26¢, and the ICC costs shown for that distance and that weight in box cars is 34.45¢?

A. That is right.

- Q. So, certainly, if you were working at ICC out or requet costs those would be below sutsofpocket?
- A. Of course, those rates were examined by the Board and found to be fully compensatory.

COMMISSIONER GOBELL: Q. Can they find out if they are compensatory?



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THE WITNESS: We had a case before them two years ago in connection with those rates, and they asked us to supply our costs, and we did so, and they satisfied themselves — to the Board.

THE CHAIRMAN: Have you got the Moncton-Calgary costs?

THE WITNESS: We did it for the whole range of the rates -- that is, incentive rates in western Canada.

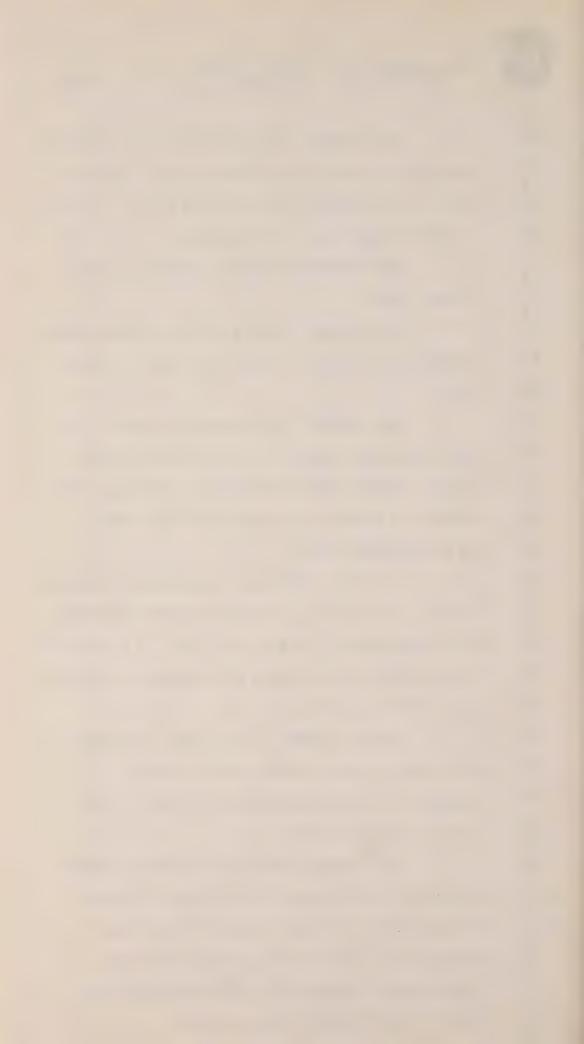
MR. BRAZIER: Q. Turning to page 13, "A number of people attempt to divide freight traffic between 'captive' and 'non-captive'. This type of approach is foreign to a practical traffic man."

Why do you state that?

A. Well, there is no such thing as "captive" traffic. It is moving --a lot of traffic is moving rail because of the low basis of rates. A lot of the basic commodities are moving rail because of the basic rates that are in effect.

Q. If a phrase is used which is perhaps more common to the practical traffic man of "competitive" and "non-competitive" traffic, would that be foreign to you?

A. "Competitive", Mr. Brazier, of course designates either competition with another form of transportation or market competition; and "non-competitive", that is to say, there is no other rail transportation competing for the products at the level of rates that we have in effect.



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Q. The use of the phrases would not be foreign to you as a practical freight man?

A. No, sir.

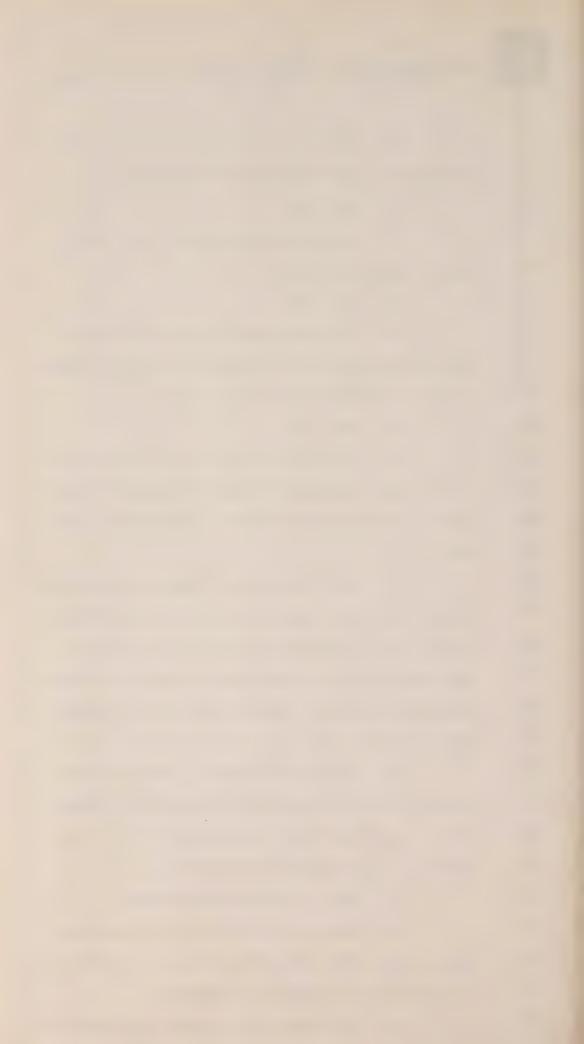
Q. But you do find "captive" and "non-captive" foreign to you?

A. Yes, sir.

Q. Mr. Cooper asked you this morning a question about what costing procedures you go through -- you, as the practical freight man?

A. Yes, sir.

- Q. I would like you to expand upon that a little more: supposing you have a shipper who comes into you and wants a new rate: what costing do you do?
- A. If it is a normal commodity rate it is on the basis which applies to those normal commodity rates. This is a basis that under our system of rate making the man is entitled to, and we are able to assess that against we have bench marks against which to assess that.
- Q. These beach marks -- I would like you to tell me in full what actual beach marks you use?
- A. Well, to start with, we have our own system, average revendes per ton-mile.
  - Q. That is revenue per ton-mile?
- A. That is right, and per car-mile, and then we have basic information which is available to us supplied by our research department.
  - Q. Are those all the bench marks that you



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have?

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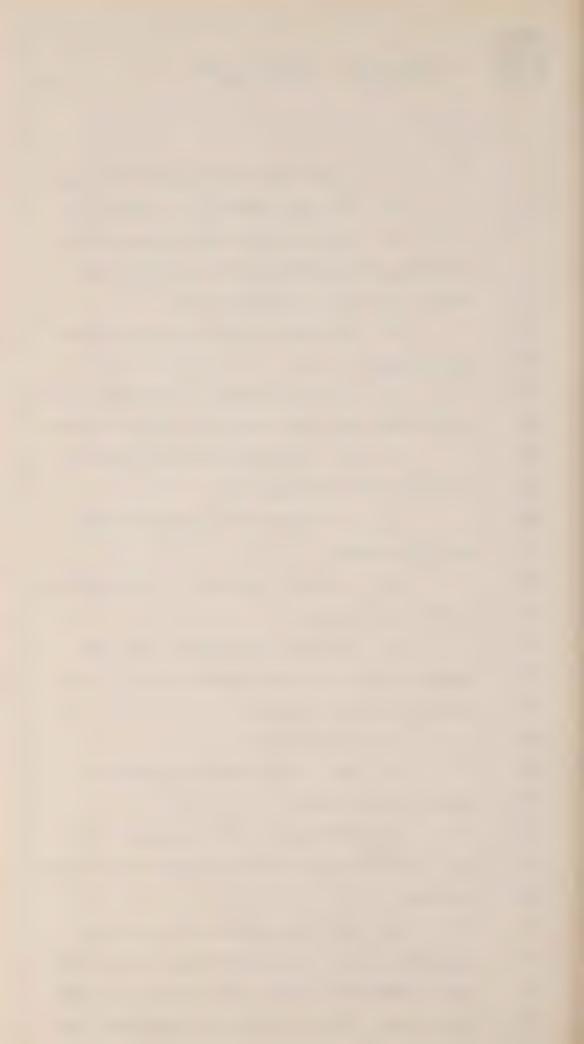
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A. I think they are very important on	A.	I think	they	are	very	important	ones
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- Q. If you are costing out a particular traffic, what relationship is there between the cost of handling that traffic and the system average revenue per ton-mile or per car-mile?
- A. You know that if you are above it you are all right.
- Q. Do you not think it is possible to have traffic where your costs are away above your average?
- A. Well, you are getting out of my field.

  I cannot answer that question.
- Q. If the rate that is suggested meets these bench marks
- A. I did not say "costs". I said average revenue per ton-mile.
- Q. I know you said revenue, but I am trying to find -- you are supposedly doing a lot of costing now on the railways?
  - A. That is right.
- Q. Your freight traffic department is doing a lot of costing?
- A. The freight traffic department is availing themselves of the facilities in our research department.
- Q. Well, say somebody comes in for a competitive rate and tells you the trucks are going to give him a certain rate.



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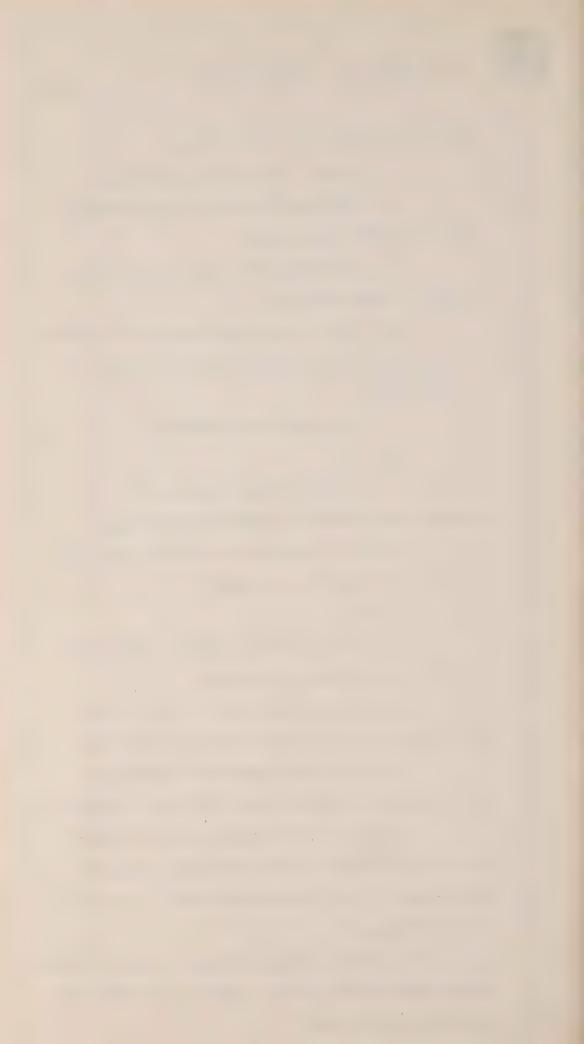
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rate or maybe give him a little better.

- A. No, sir, we meet the competition.
- Q. You sometimes have to go something a little below the truck rates?
- A. We have to meet specific situations, such as on truck delivery.
- Q. Yes, and would you look at that traffic and find out what your average revenue per ton-mile is going to be?
  - A. On the particular movement.
  - Q. Yes.
- A. The first thing I would drive at is confirm that is what the trucker was charging.
- Q. Well, say you have confirmed that and you have got to give them a rate?
  - A. Yes.
- Q. Would the first thing you would do be to look at the revenue per ton-mile?
- A. I would assess these factors of the revenue per ton-mile and the revenue per car-mile.
- Q. If the rate suggested is above the system average for these things, would you go further?
- A. No -- if I satisfied myself that the rate that he alleged was the rate being charged by the truckers, I would be satisfied that it was making a contribution.
- Q. And it was again above the system average revenue per ton-mile and per car-mile, you would say the rate was all right?



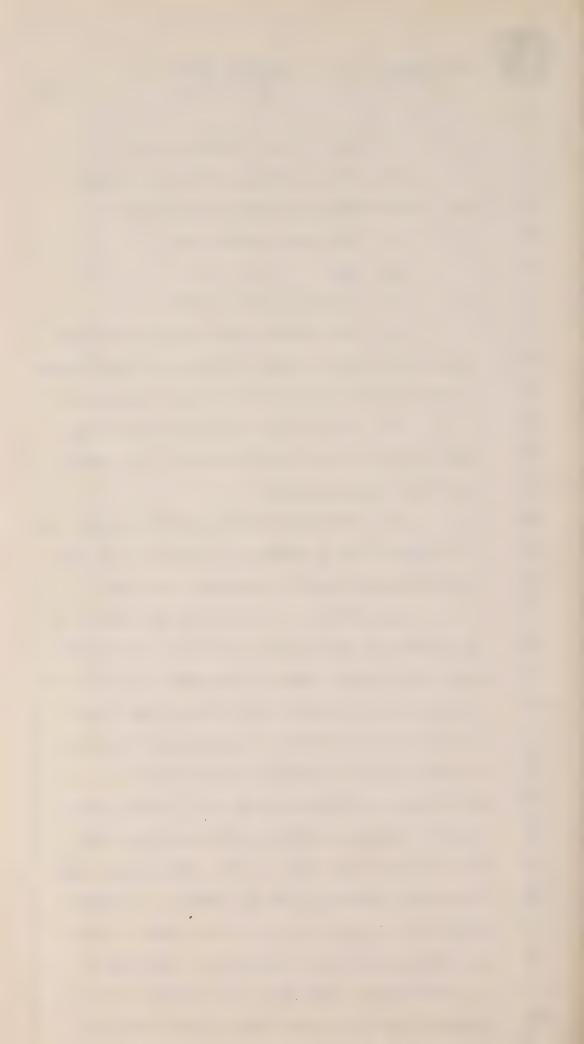
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A. Yes -- well, I would say that.

Q. That it would be above the variable cost for handling that traffic -- would you?

- A. Above the variable cost?
- Q. Yes.
- A. I would say it would be.
- Q. That would be the conclusion that you would come to and you would not feel impelled to send it over to the costing section to cost the traffic?
- A. No. You see, I can check my average costs from these basic particulars that the research department supply us with.
- Q. Does the research department supply you with figures such as average costs per mile of line haul or terminal costs, or anything like that?

MR. SINCLAIR: Mr. Chairman and members of the Commission, the witness has said he gets certain basic data from the research department on costs, and if the Commission wants to see what we have we will be glad to give to them on a confidential basis, but we certainly are not going to in this public proceeding say how and what we have, because for one reason Mr. Hart is sitting in the Court Room; the other reason is Mr. Hume or some of his cohorts are, and another reason is that Mr. Brazier is a shipper and we are not going to let him know what it costs to move his lumber and let him try to say that we get more from him than we do from the Bell pole. Further than that, I have said to this witness in





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connection with these questions that that is as far as I say he should go.

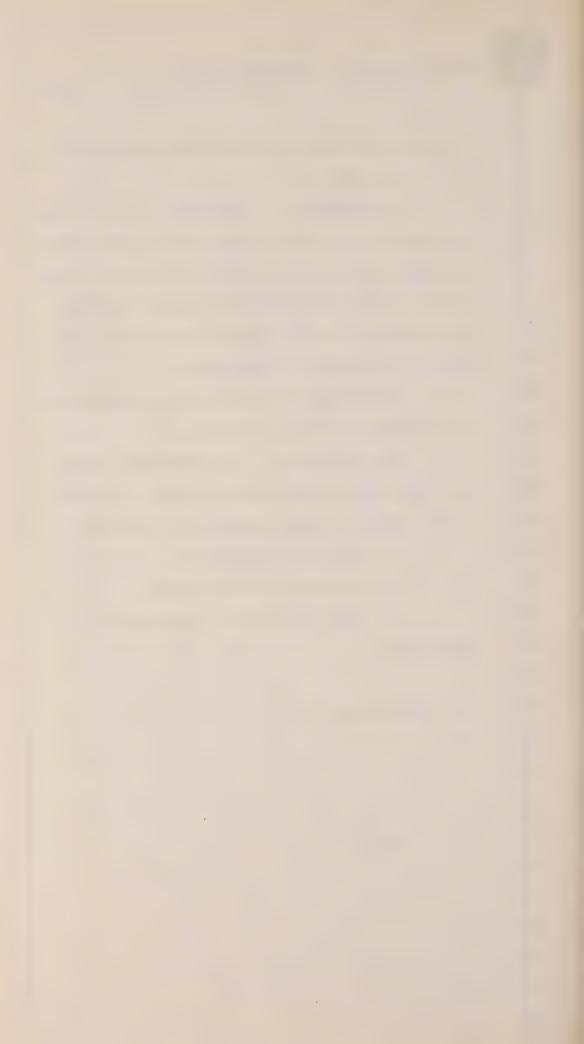
MR. BRAZIER: Mr. Chairman, I am not asking Mr. Roberts to tell me how much the per mile costs on the main line haul are. I just want to know if that is part of the basic information he gets from the cost service. I am not asking for the figure, but does he get that type of information?

THE WITNESS: We get basic information from our research department, Mr. Brazier.

MR. BRAZIER: Q. I am not trying to tie you to any figures, but they may say that it costs us 2¢ a ton-mile to move freight over our lines ---

- A. They have a figure ---
- Q. Do not tell me the figure.
- A. They take certain factors into consideration..

--- A short recess ---



MR. BRAZIER: Q. Mr. Roberts, this morning

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said you might have two or three cases yourself in a

THE CHAIRMAN: Order, please.

you told Mr. Cooper that - he asked you how much

costing was done by the railways nowadays, and you

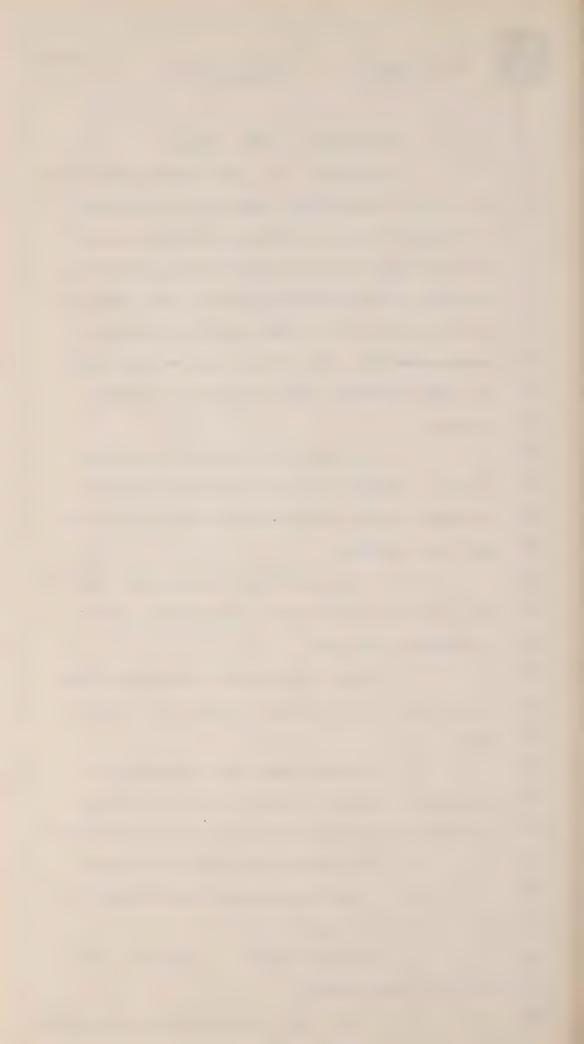
day which you would refer to them and your traffic men in other parts of the country would be referring problems to them. So, I take it on the whole they

get quite a number of these requests for costing

figures?

A. It runs, as I said also to him, in cycles. Sometimes you run into situations where you have a number and other times there are not too many over a period.

- Q. I would presume from that that over the past few years the C.F.R. has accumulated a lot of information about cost?
- A. Well, the Research Department give us the figures. What they have accumulated. I do not know.
- Q. When you send these requests in, do
  the answers come back readily, or is it a matter of
  six months or a year s study before you get the answer?
  - A. It varies, also, the time it takes.
- Q. I am talking about those you send in two or three in a day?
- A. Well, it varies. I could not put a time on it, Mr. Brazier.
  - Q. Well, what is the shortest period, then,



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in which you might get the answer back?

A. Oh, in a day on occasion. I suppose it depends upon the problem you put to them.

Q. Yes.

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THE CHAIRMAN: Sometimes there would be field work?

THE WITNESS: That is right, sir. That is in connection with some costing, there may be necessary to have field work.

MR. BRAZIER: Q. But some of them are done in a day?

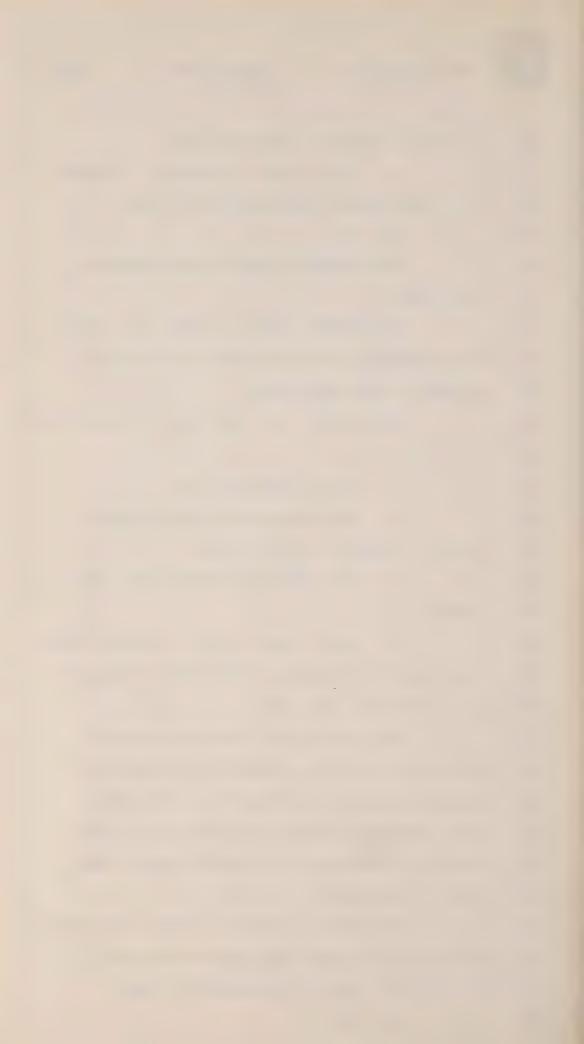
- A. On some occasions, yes.
- Q. And some covering a wider range of traffic, I suppose they take longer?
- A. Even individual movements may take longer.
- Now, on page 14 there is another little phrase there that appears to be a little foreign to me, Mr. Roberts. You say:

"The proportion of the railway traffic which moves at class or commodity rates and is not marked competitive for the reasons I have just given, represent a larger proportion of the total traffic in some areas of the country than in other areas of the country."

Now, are you suggesting thereby that some of your class rates are in fact competitive rates?

> Are in fact competitive rates? A .

Q. Yes.





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Q. So, as I read it here, and I just want

- A. Well, I guess, to this extent that the trucks in some parts of the country, I believe, do publish our class rates. They are prescribed, I think, by Saskatchewan.
  - Your own class rates? Q.
- Yes, the railway class rates, as I recall.
- But you do not mark them competitive Q. . when that happens?
  - A. No. sir.

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- You have had commodity rates which you have carried long years, and then you suddenly discovered they were actually competitive?
- A. Well, we had an example of lumber and fruit from British Columbia.
- Q. I take it, too -- I want to go over a minute now to your Exhibit 160, and generally speaking I take it this exhibit is an attempt on the part of the Canadian Pacific Failway to Shiw that the burden of the 17 per cent increase did not fall on any particular area of the country? It was divided amongst all areas?
- A. That is the purpose of it. It is to show the impact of the increase.
- Q. The impact on the economy of the particular areas?
  - That is right, sir. Α.
- to take it within Ontario and Quebec, you have got



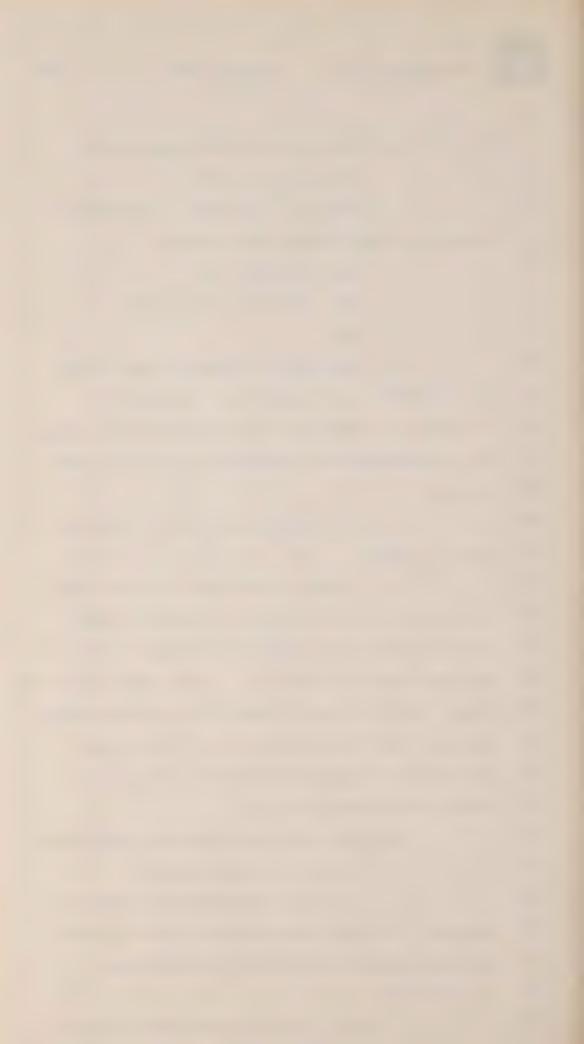
\$65,000 of the increase, odd, out of that traffic?

- A. That is correct, sir.
- Q. Which is 11 per cent. And within the west you get just slightly less revenue?
  - A. That is correct.
  - Q. Yes. And 11.1 on the total?
  - A. Yes.
- Q. Now, have you considered those at all,
  Mr. Roberts? I presume you would agree that in
  measuring the burden of so area you would have to take
  into consideration the population of the areas, would
  you not?
- A. Well, the population and the amount of traffic handled.
- Q. I suggest to you, and I have here the very latest figures, the first of September, 1960.

  population figures for Canada takes today from the Dominion Bureau of Statistics. Areas within Ontario and Quebec, 11,770,000 people, whereas in the four western provinces there are only 4,739,000. That is more than twice the population in Ontario and Quebec, as against the western provinces.

Will you accept those figures as being correct?

- A. I would accept those figures.
- Q. Yes. So, I suggest to you that that indicates on a per capita basis the burden of this increase has been much heavier in the west than it is in the east?
  - A. Well, spread over the number of people



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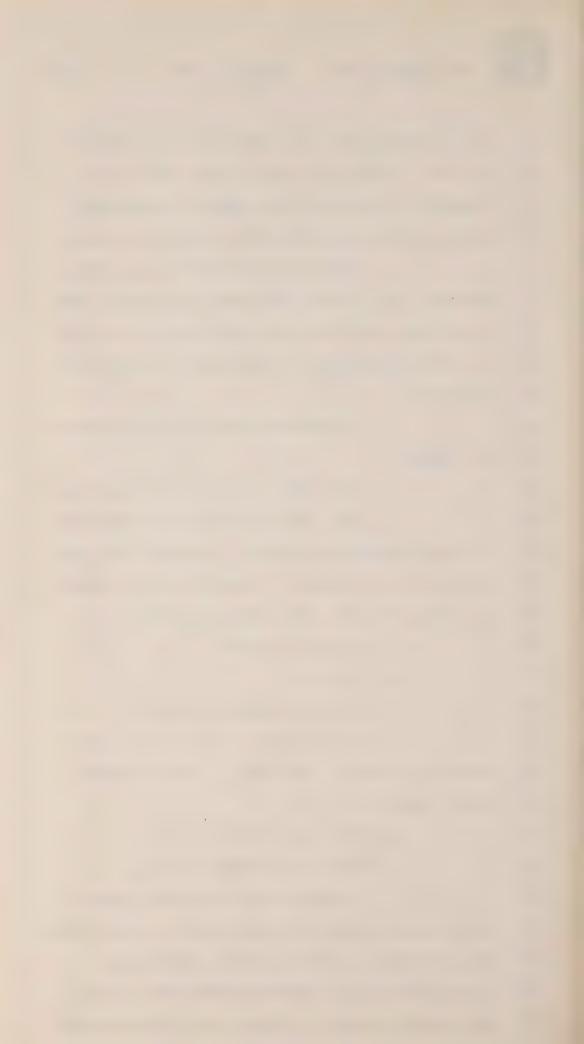
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in the western provinces, this is what it indicates. but also, likewise, you have to take into account. I would say, the service performed by the railways within western Canada and within Ontario and Quebec.

- Q. There would be no doubt in your mind that the table, taking just those two figures I have taken there, that the people within those areas would bear those freight rates, either the producers or the consumers?
- A. Or the people they sell their goods to, Mr. Brazier.
  - Well, they are all in the area, though? Q.
- A. Well, there is in here, of course, and included within western fanada, for example the coal that moves to Fort Mocdy for export and the sulphur and things like that; the primary products.
  - Moving for export? Q.
  - A. Yes. sir.
  - A very substantial amount?
- Not for export; it is for use by the A. mills on the coast -- the coal. But the sulphur is for export.
  - That is all within the area?
  - That is all within the area.
- Q. I suggest to you on the basis of per capita, and you can check these figures. It shows that for all traffic -- that is, taking both the noncompetitive and the competitive and agreed charges per capita in Ontario and Quebec the burden was \$5,86.



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In western Canada, it was \$13.56. And I also have the maritime figure worked out here at \$8.72.

Them, if we take the same burden study for just the non-competitive traffic Original and Quebec. it was \$2.07. In the west it was \$7.93. In the maritimes, \$5.15.

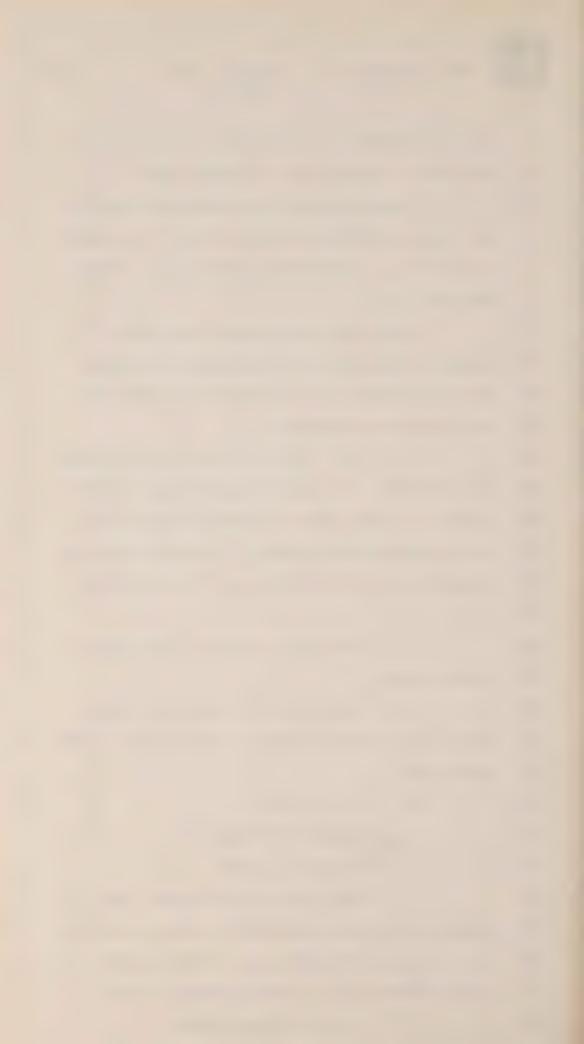
Now, with those figures before you, I suggest to you that they do indicate that deriain regions of Canada bore a ruch beavier burden from that increase than others?

- A. Well, the traffic that is moved within the territory not recessarily the people thanselves.

  Because, as I say, there is certain traffic that moves outside Western Canada It originales and it terminates in western Canada, but it is destined beyond.
- Q. That would not be very important to these figures?
- A. I would say the coal from southern

  Alberta and Entries Intembra is important for export

  these days.
  - Q. To Vancouver?
  - A. Through Fort Moody.
  - Q. How much in there?
- A. Well, there is over 200,000 tons. I think pretty close to 300,000 tons making this year.
- Q. But on the figures which you have here, what difference would it make in these figures?
  - A. I could not say offhand.



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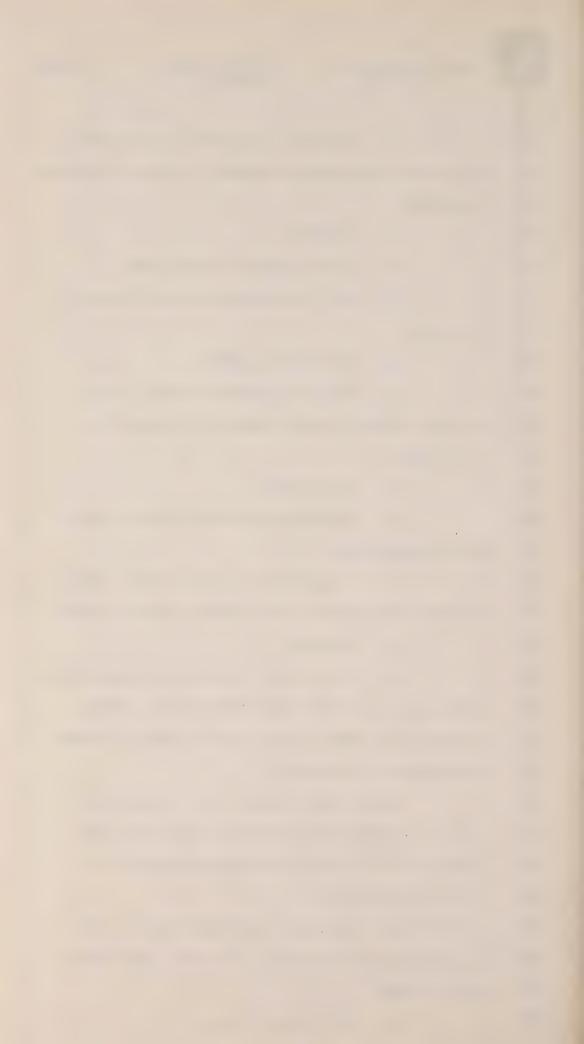
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I suggest to you maybe at that time Q. that traffic was going to Seattle; it was not going to Vancouver?

- Α. In 1958?
- It was going to Seattle then?
- Α. No, it was moving through Vancouver last year.
  - In December, 1958? Q. .
- No. but it certainly moved into -the bulk loading facility opened in Vancouver in Port Moody.
  - 0. June or July?
- It may have been that late. It may have bean that late.
- I suggest to you, Mr. Roberts, that it won't make any important change in those figures?
  - A. I may not.
- I just want to take you through another, and I am sorry I haven't had time to draw a fancy diagram, Mr. Roberts, but I want to take you through this particular situation.

First, can I ask you this. Would I be right in presuming that there are rates in Carada that are equal to the fully distributed cost of moving the traffic?

- A. The fully distributed cost? Well, we can take that assumption, I am sure, that there must be some.
  - Q. There must be some?



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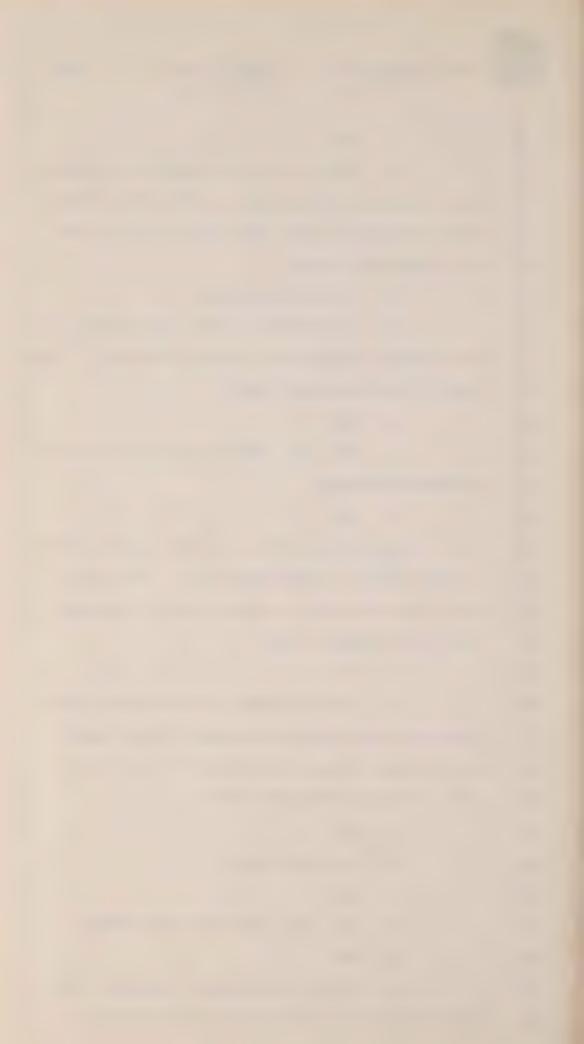
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29 30 A. Yes.

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- And you gave me the range over variable cost but can you tell me this. Would there be some traffic that might carry a rate which is double the fully distributed costs?
  - It is possible, yes.
- Q. And that ties in with the variation of over variable costs which you stated previously? Maybe three or four hundred per cent?
  - Yes. Α.
- Well, now, this has application to the horizontal increase?
  - A . Yes.
- And take this -- I will try and do this so that we get it on the record, too. You have a rate, a \$2 rate which is exactly equal to the fully distributed costs; a \$2 rate?
  - A. Yes.
- You have another \$2 rate which is just Q. double your fully distributed costs. So that that rate is today making a contribution of \$1 over and above its fully distributed costs?
  - A. Yes.
  - You follow that? Q.
  - Yes. A .
  - Now, your costs go up 20 percent? Q.
  - Yes. A.
- So. you apply and get permission from Q. the Board to increase your rates by 20 per cent?



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A. Yes.

- Yes. Now, the man who was paying fully distributed rosts, these norts have actually gone up 20 per cent?
  - A. They have gone up.
- I am sorry. I should have said a 10 per cent increase in costs, to go along with my figures. There is a 10 per cent increase in costs?
  - A. Yes.
- Q. So, his fully distributed costs now come up to \$2.20?
  - A. Yes.
- Q. So he is still paying his fully distributed costs; is that right?
- A. Well, you are getting out of my field. If the fully distributed cost were \$2, and you add 10 per cent to it, it is \$2.20. And it has gone up, presumably. The 10 per cent just reflects costs.
- Q. The fully distributed costs. I do not care what you put in it. I will be very generous with you on this question of costs, but that is what your costs have gone up?
  - A. Yes.
- So, this man is still paying the fully distributed costs?
  - A. Yes.
- So this other man, B, his fully distributed costs were only \$12
  - A. Yes.



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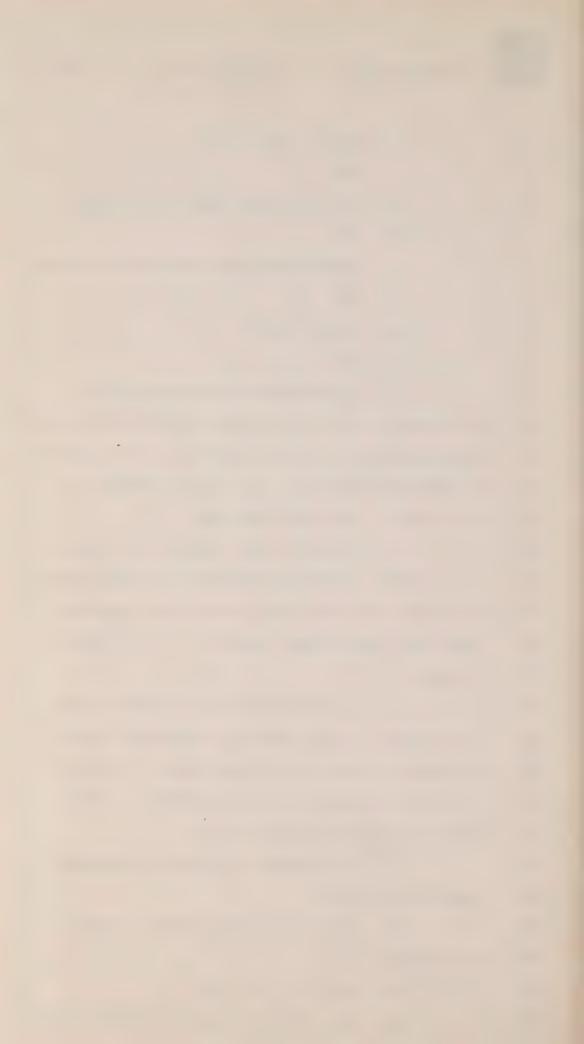
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- Q. But his rate was \$2?
- Α. Yes.
- So his rate still goes up to \$2.20? Q.
- Yes. A.
- But his costs have only gone up 10 cents? Q.
- A. Yes.
- Is that right? Q.
- A. Yes.
- Q. So, whereas before he was making a contribution of \$1 over and above his fully distributed costs because your costs have gone up, he is now making an additional 10 per cent, or 10-cent, donation to your overall -- you agree with that?
- A. So far as I am concerned, Mr. Brazier, the increase is spread proportionately for both rates, now, since these rates were the rates that moved the traffic and this is what I look at. This is what I examine.
- Q. You think that that situation is fair to the shipper who has the fully distributed costs of \$1, and yet a rate of \$2 to start with You think ! it is fair to ask him to pay an additional 10 cents over and above the additional costs?
- A. Mr. Brazier, if his traffic is moving freely, yes, by rail.
- Q. And you see nothing unfair in that to the shipper?
  - No, sir. No, sir. A.
  - Now, I want to come, Mr. Roberts, to your Q.



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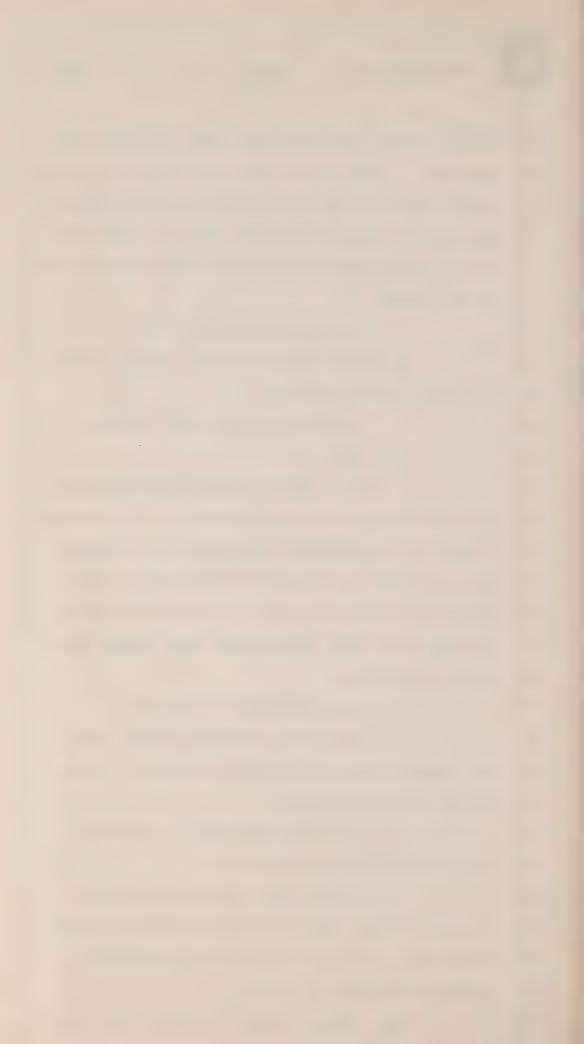
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section dealing with the freight rate structure based upon cost. And, in particular, the proposal in respect thereto presented by the Province of British Columbia. Speaking in very general terms, first, as I read your brief, you have only one objection to the proposal which we put forward?

- A. What objection is that, sir?
- Q. That objection being a maximum rate on so-called captive traffic?
  - A. A maximum rate on captive traffic?
  - Q. Yes.
- A. No, I would not agree with that either, that there is just the one objection to it. Mr. Brazier, because, as I understand, the freight rate structure advocated the rates themselves could differ the rates themselves could differ the country on the same commodity, the same weight, the same length of haul.
  - Q. Now, don't they do that today?
- A. Apart from competition, they do not, Mr. Brazier, except in the territory west of -- or, in the maritime territory.
- Q. As far as competition is concerned, which covers all your rates now ---
- A. Oh, yes, but competitive rates, Mr.

  Brazier, as they relate to carrier competition, yes, they vary.

  The balance of the rate structure is predicated on value of service.
  - Q. I think Mr. Marries in his brief the



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Calgary of 23 cents as against competitive rate from Winnipeg to Dryden of 48 cents? A. That is right. For ginger ale? Q.

That is right.

other day, had a very good example of quite different

parts of the country. The rate I am speaking of was

the one he quoted as the ginger ale from Edmonton to

And your rate structure today is full Q. of those?

Those competitite rates; that is, carrier A. competitive.

Q. Yes. So why does that become an objection to the British Columbia proposal, if you already have a situation in your present

Yes, but we do not have normal commodity rates, Mr. Brazier, differing to different parts of the country.

You have -- you say normal commodity Q. rates?

> That is right. A.

You have commodity rates in different Q. parts of the country?

> Specifics. In some instances, yes. Α.

Lumber, for infinite! Q.

Well, we have different situations, Mr. A. Brazier, because out west we have groupings to some extent in our rate structure waich we do not have I do not think now, in easter canada, And, likewise,



in eastern Canada, as I recall it, the Board found that the rates out of the east were all actually carrier competitive under equalization - in examining them under equalization.

- Q. What about the commodity, lumber commodity scales you publish?
  - A. Lumber commodity scales?
  - Q. Yes.
  - A. In the east here?
  - Q. As against the west?
- A. Oh, they vary, Mr. Brazier. They vary, and they were examined by the Brard, but the finding of the Board was that we should leave the status quo in western Canada, and in eastern Canada they are competitive rates, anyway.



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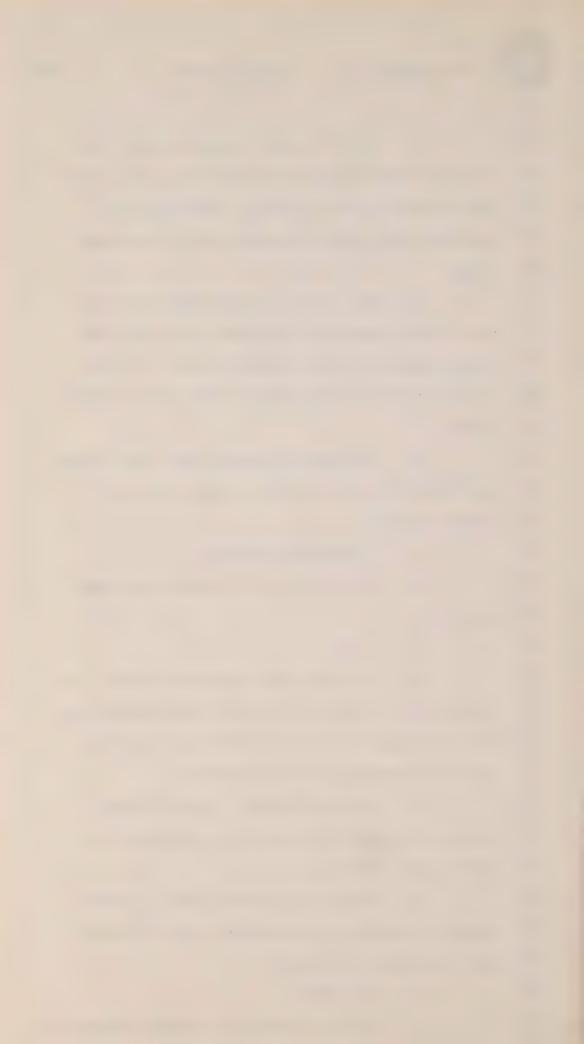
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A. Yes, sir.

Q. And as you have to flag more and more of

- Q. What I am just trying to point out to you is that there is one point of our scheme that you do not like and I suggest to you that it is something that exists throughout the rate structure today?
- Yes, but we do not charge basically more to move vegetables from Ontario into, say, the Quebec market -- I mean on normal rates -- than we do the vegetables from southern Alberta into western Canada.
- Q. You say your normal rate, tell me this, does not traffic move on these normal rates in eastern Canada?
  - I would say yes, sir. Α.
- Have you got truck competition rates 0. there too?
  - A. Also.
- Q. You have truck competitive rates. Is it not true, Mr. Roberts, that the rate structure as it exists today is full of differences in rates and in different parts of the country?
- A. Not as to scales. Not as to commodity scales, and the class rates, excepting the maritime territories.
- Q. But you would agree then, so far as competitive rates are concerned and agreed charges that there are differences?



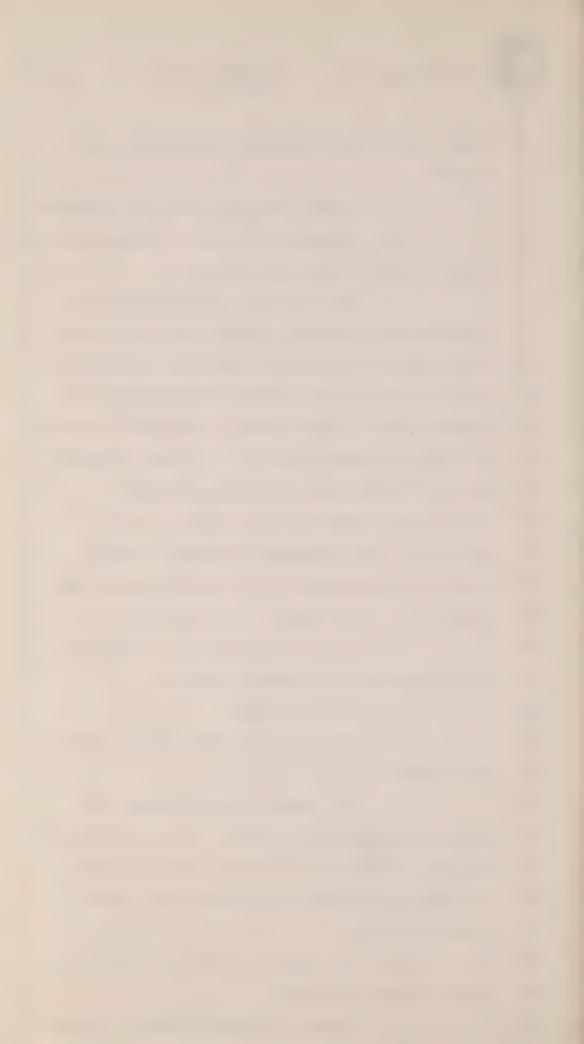
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those tariffs that situation will multiply in any event?

- A. It will grow as the force of competition.
- Q. I suggest that is not a point against the scheme proposed by British Columbia?
- A. Well, so far as I am concerned it is indealing with the public, because this is all very well, with all due respect to theories, when you are dealing with the public and the fellow who pays the charges, when the transportation is finished you have a different problem before you. I would sertainly have Mr. Frawley down my back and a few other people who are representing the people of their province if I was attempting to tharge different rates in different parts of the country is what they thought was the detriment of their province.
- Q. You look at a specific, in making rates and tying things to something specific?
  - A. How do you mean?
- Q. Well, you do not like this theorizing about rates?
- A. Well, you see, we are dealing with something that is moving traffic. We are dealing with the rate structure that is moving traffic and what we write in a book does not apply to what people's reaction will be.
- Q. You do not look with great favour on these theoretical people?
  - A. Oh, now, don't get me wrong. We have



people in our organization mending all these different things, that is different viewpoints. I am not saying those things and the people who devise them are wrong at all. I just say so far as our own rate structure is concerned and the fact that we deal with people, you can say they would react a certain way, but, unfortunately, people do not react that way.

Q. I would suggest to you, Mr. Roberts, your easiest way out of your difficulties with your customers would always be just to say, "Well, there is the cost of handling that traffic"?

A. I am sorry, but it is not that simple.

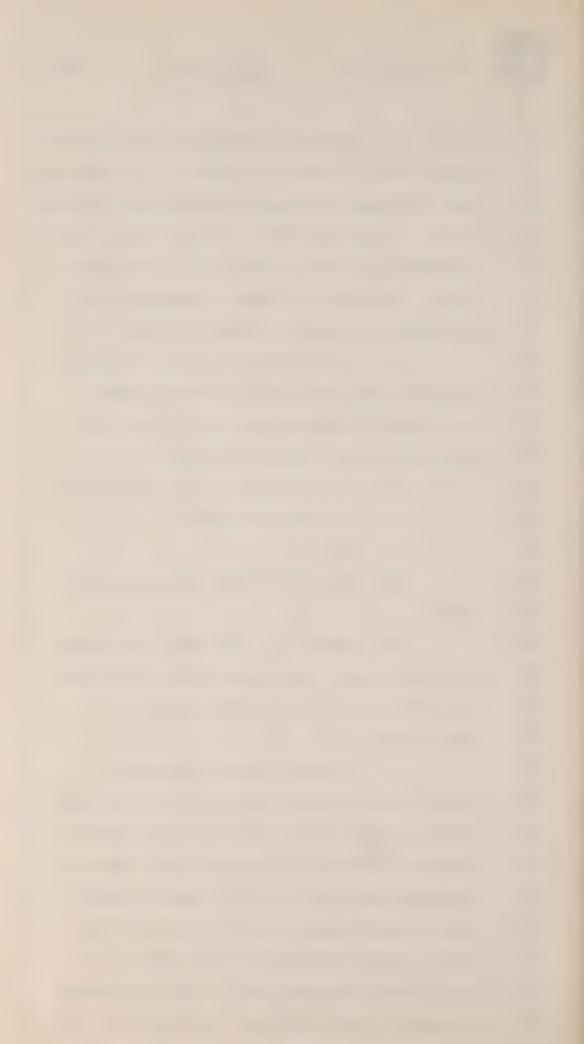
Q. It is not that simple?

A. No.

MR. SINCLAIR: Is that the way you sell lumber?

MR. BRAZIER: Q. All right, that is the No. 1 other point. What are the other difficulties you find in the British occumbia proposal in a practical way?

Brazier, endless troubles and difficulties with the shipping public in that traffic that was moving at competitive rates above this ceiling that might be prescribed competitive rates then those traffic would be endeavouring to prove to the Board that actually in fact there was not any carrier competition and therefore, traffic should be defined as captive or non-competitive, as we call it. It



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may be that we might also move traffic out of the captive category into the non-captive in order to make something.

- Q. Well, in that situation, if developed, it would be necessary that your competitive rates were above fully distributed costs?
  - A. Yes.
- Q. If they were not them no difficulty would arise?
  - A. That is true.
- Q. Would you think you have a great batch of competitive rates today writer are above fully distributed costs?
- A. In my estimation, certainly enough to cause us concern with a proposal such as this.
- Q. Well, if the point had to be decided, do you not think the Board of Transport Commissioners could determine the fact as to whether or not competition did exist. Trey tite had more difficult things to decide than that.
- A. Reasonable competition is pretty hard to define, in my estimation; what is reasonable to you is not reasonable to me.
- Q. The same as just and reasonable rates, what is just and reasonable to yet is not just and reasonable as far as I am concerned -- no more difficult a problem than that?
- A. I would say difficult, yes, it is a more intengible thing.



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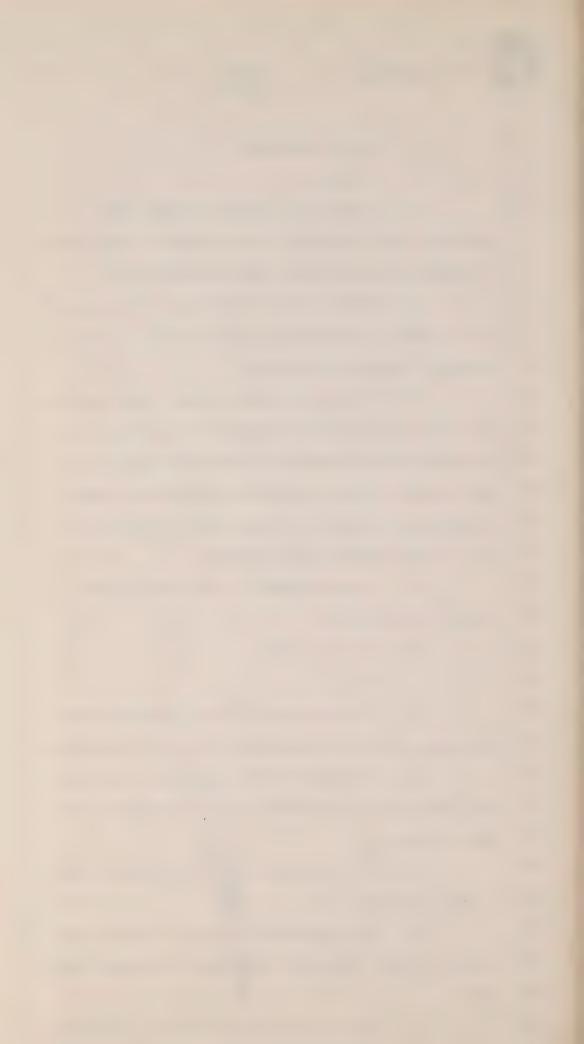
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Q. More intangible?

A. Yes, sir.

TORONTO, ONTARIO

- Q. Would I be correct in saying that undoubtedly there is amongst wraffic people a reluctance to change any system that they previously used?
- A. Well, it is a reluctance, if you want to call it that, to discarding a practice that, in our opinion, is proven and workable.
- Q. You do not think the fact that the railways have run into so much opposition in the last ten years that the Government of Carada has seen fit in that period of time to appoint artually times royal commissions to look into rativay matters indicate at all that the system is not working?
- A. In my estimate I would not say the system is not working.
  - You would not? 0.0
  - No. Α.
- You are quite willing to leave it as it is today, make such adjustments as you think necessary?
- A. Not that we think nepessary, sir, that we decide upon in negotiation with the people who used our railway.
- Q. But the final decasion is yours to make a change or not?
- A. If a man makes a /case, Mr. Brazier, we reach, I think, a mutually satisfactory agreement with him.
  - And you would think the basic approach Q.





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everything as they are and you will work your way

out? I am not talking about grain.

A. No -- we have done it so far and we will

continue to do it.

of the Canadian Pacific Railway is just to leave

- Q. Now, you do in effect have a ceiling today, do you not, of rates in Canada?
  - A. That is right, sir.
  - Q. Your class rates?
  - A. That is right.
- Q. Are those class rates so far above fully distributed costs plus some further allowance that they make a terrific difference to you?
- A. How do you mean, they make a terrific difference to us?
- Q. You do not object to having a ceiling rate today?
- A. A ceiling rate for the traffic that is not moving frequently to take care of
- Q. Just a ceiling that is away up there, a good high umbrella?
- A. I do not know how high up you want to say it is.
- Q. I suggest to you it is so high it is just unrealistic for traffic conditions as they exist today?
- A. No, sir, I do not think it is unrealistic at all.
  - Q. It gives you a great deal of room for



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covering?

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A. It does not give us a great deal of room for covering -- how do you mean that?

6 7 Q. Well, your rates can keep going up till they reach this theoretical maximum that we have today and you can apply for another 20 per cent increase at the beginning of next year and put it on some rates and still be under the ceiling?

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A. Well, of course, the ceiling rises in a general increase case.

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Q. It keeps pushing up?

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A. It moves the traffic.

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Q. You keep the same area above your general body of rates?

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A. Proportionately.

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Q. Proportionately?

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A. Yes.

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Q. And, as a matter of fact, the distance stretches a little bit each time because they take higher rates and taking some percentages they go up in dollars and cents a little more?

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A. In actuality but not proportionately.

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Q. You think the maximum as suggested by British Columbia - and I am just paraphrasing your brief, Mr. Roberts -- is that it would be unrealistic?

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A. Well, of course, I think there is a little

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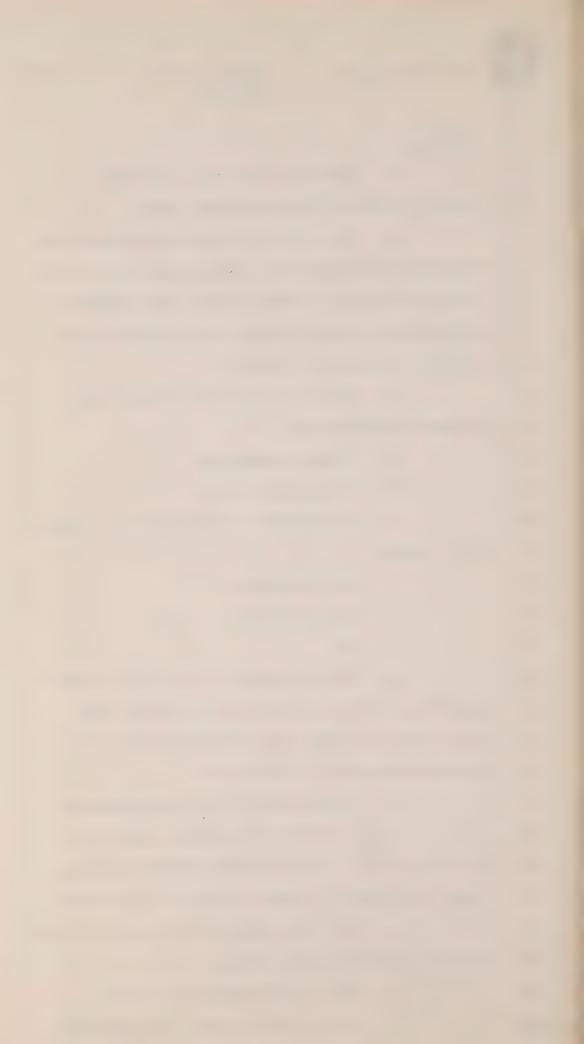
doubt as to which is the ceiling.

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Q. Well, we may explain that later.

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A. Which is the ceiling? Is there one



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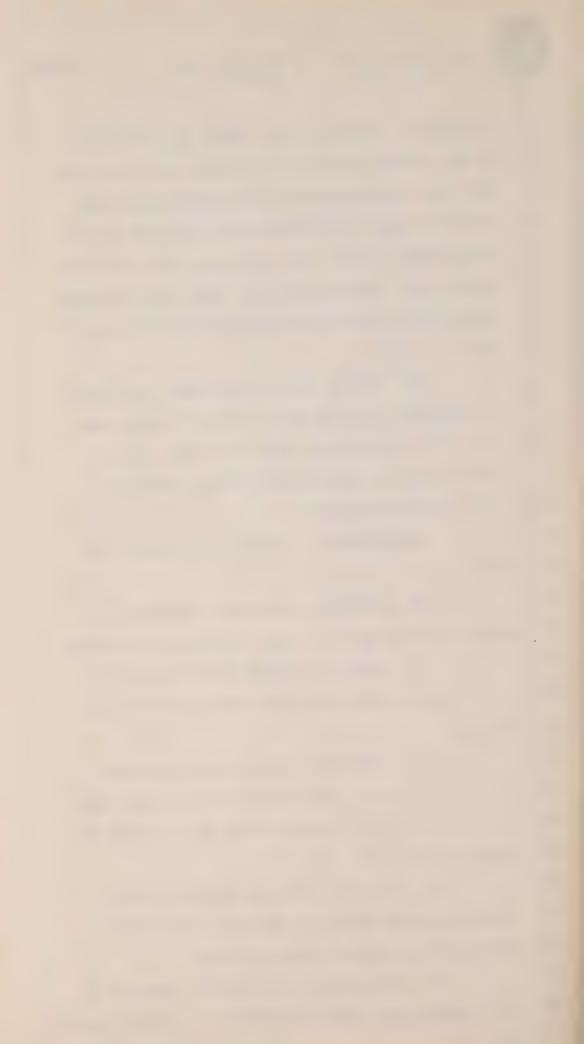
ceiling, as I understand Mr. Hughes to say it will be the variable cost plus the constant cost, the full cost plus something above that and this would rise with increased cost proportionately in order to keep the railways whole. Then, the second that was interjected, and I think by you, that this ceiling should remain fixed and only move to the extent that costs move.

Let us take on that basis, you fix it Q. at something - you say to your captive snipper that it is just and reasonable that you should make a contribution of your full cost, fully distributed cost plus something else.

THE CHAIRMAN: He does not recognize the term.

MR. BRAZIER:Q. We say the regulatory authority fixed that as a just and reasonable ceiling?

- A. This is a ceiling that is fixed.
- And as your cost goes up the ceiling goes up?
  - Only to the extent that costs go up. A
  - Q. Yes. Well, what is unfair about that?
- A. Well, I do not think it would keep the railways whole.
- Well, now, has the Canadian Pacific Railway done any studies to show what the effect of that would be on their revenue position?
- No, not as of this time. However, I can visualize that just the increase in cost, the increase



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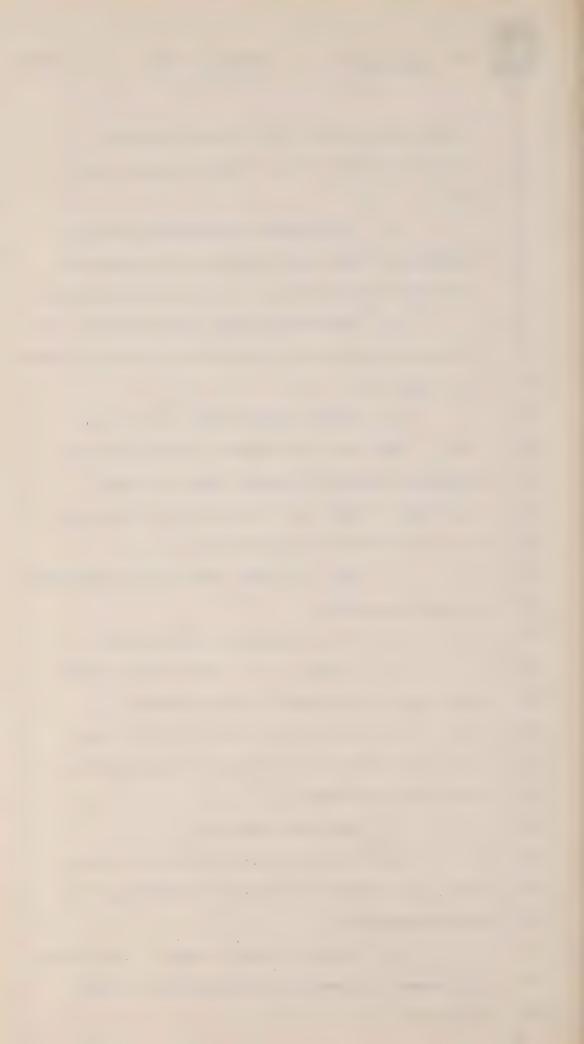
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in cost being	the only	factor being	reflected,
eventually we	would be	in a deficit	position, the
C.P.R.			

- If you make an application because of Q. . increased cost what other things would be reflected in the increase that you get but the increase in cost?
- A. There are all the various features that go into the operating of the railways, the cost of money, the income tax ---
- Q. I have been including all those as costs. Take cost in the broadest sense, making an application based on increased costs why should adjustments be made in the rate atructure except on the basis of those increased costs?
- A. Well, of course, what you are suggesting is what we have now.
  - I do not think so, but go ahead.
- I think it is. You have the ceiling A which moves up, now what is the difference?
- Q. You know our ceiling is not -- the class rates 'oday - just going to be below what the class rates are today?
  - A. Yes, that would be ---
- Q. So you have no objection to ceiling rates, you just take objection to the seiling which we have proposed?
- A. No, sir. That is right. We recognize that class rates today are a ceiling and we should nave them.



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to us.

		Q.	. A1	nd th	ae r	eason	Ac	u ob	ojec	t	to 0	ur	proposal
is	the	fear	that	you	may	lose	a.	lot	of	re	venu	e?	

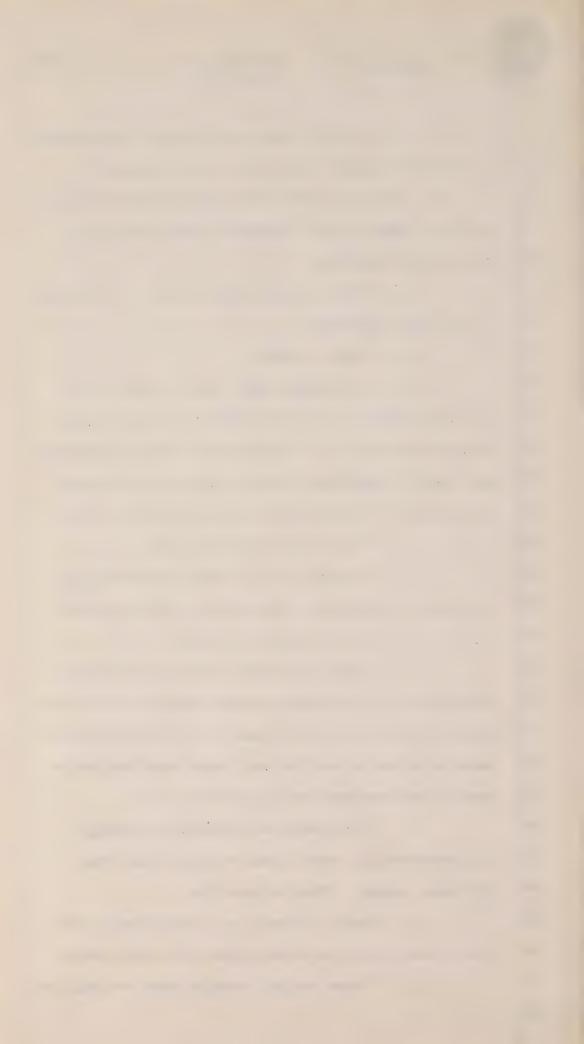
- Q. Not a fear that the Canadian Facific Railway will not lose a lot of revenue but they would be put in a deficit position.
- Q. Well, take it step by step. You would lose a lot of revenue?
- A. That is right.
- Q. Now, having that fear did the C.P.R.

  go to the trouble of making a test to see what effect

  it would have on it? I might have a fear of something

  and I may be completely wrong about it and I suggest

  to you that the Canadian Pacific Railway can be too.
  - A. I have not made such a test.
- Q. Has the C.P.R. to your knowledge any intention of testing to see what the result would be?
  - A. This involves cost again.
- Q. Would you think, as a man of long experience and a very distinguished threer in the railway,
  would you think it a fair tring to do before they come
  here to criticize the plan put foward that they would
  test to see what the result is going to be?
- A. This would mean developing costs for all movements all over Canada, terminals and other different routes. That is your plan.
- Q. Well, you have got lots of bench marks now. Have you tried those against your bench marks?
  - A. Those are all averages that are supplied



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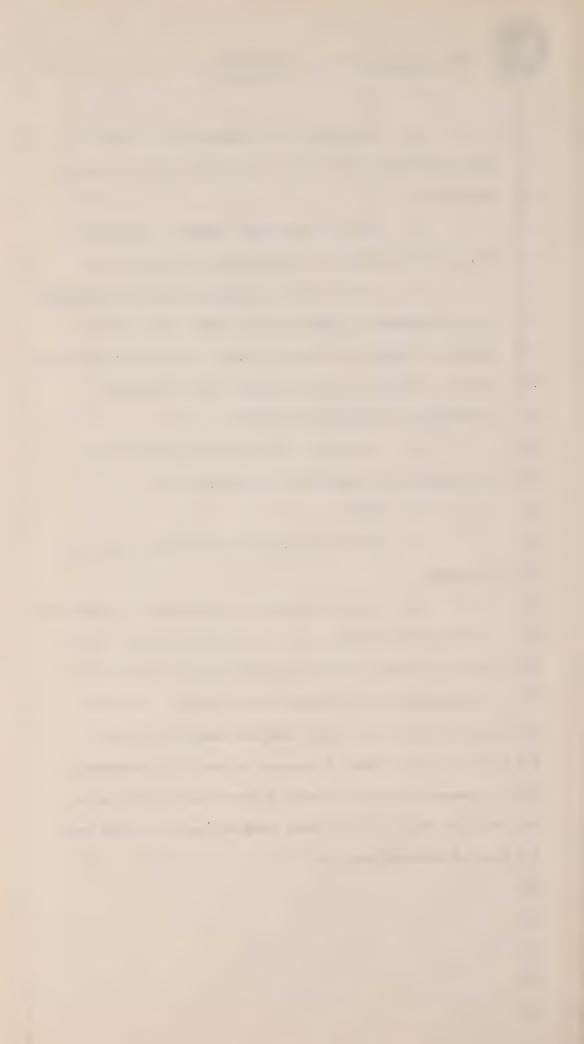
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But the C.P.R. also has all kinds of cost information, they have been doing this for some years now?

- A. Not to the extent that we anticipated as would be involved in this particular submission.
- Q. So it is not the intention of the Canadian Pacific Railway to come here and point out to this Commission that as a result of this our revenue position would be affected within a range of \$5 million or \$10 million or anything like that?
- A. Of course, with such a scheme as you have suggested it would be a tremendous job.
  - Q. Why?

TORONTO, ONTARIO

- A. To develop all the costs that would be necessary.
- Q. You do not have to bother at all with any of the agreed charges, you do not have to bother at all with any of your competitive rates, you do not have to bother with your international rates. 'You have got your class rates and some non competitive com. modity rates. Now, I suggest to you it is certainly no insuperable task or even a particularly difficult task for the C.P.R. to make some estimate of what their loss of revenue would be.



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A. In my estimation it would be a tremendous task. That is all I can say to you.

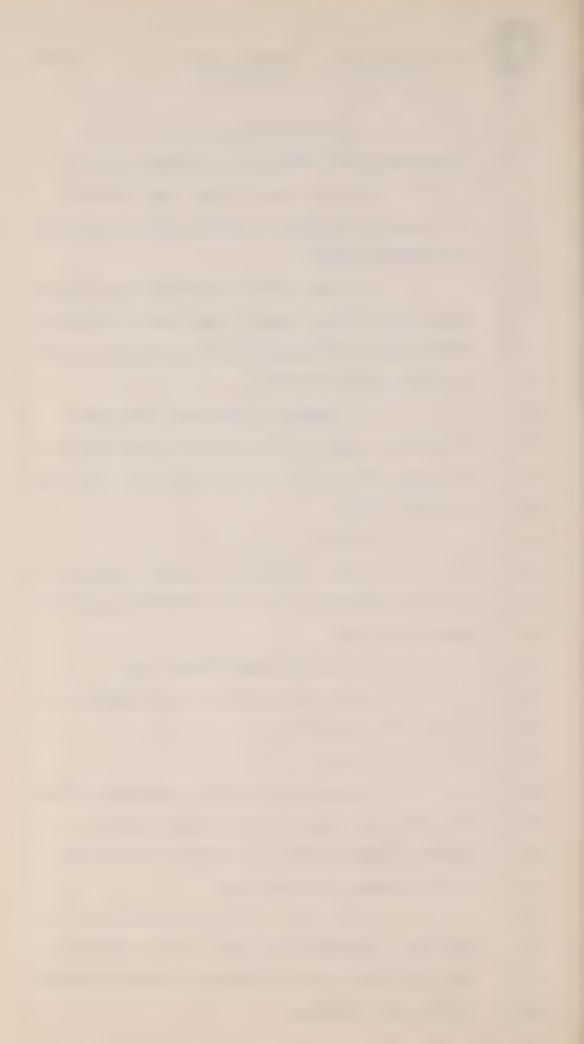
- Q. So, in view of that, and I take it the company is willing to come here and say it does not approve of this?
- A. I say that the net result would be the same as it is now -- that we would have a structure that would move the traffic and it would move up in just the way our own does.
- Q. I suggest to you that is not quite correct, Mr. Roberts, and I think we have agreed on the fact that you do not mind a ceiling -- you accept a ceiling rate?

A. Yes.

- Q. But you think our ceiling is too low-of fully distributed costs plus something; you think
  that is too low?
  - A. I do not think it would work.
- Q. You do not think it would work because of the loss of revenue?

A. Yes.

- Q. Having come to that conclusion, do on not think the company could do something about informing the Commission in some way of what their loss of revenue is going to be?
- A. As I say to you, an assessment of this would be a tremendous task, and I do not think the net result would be any different than we have today in the rate structure.



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A. Because I do not know when such a job would be finished.

Q. But if the thing is going to be the same as it is now, what objection have you to the British Columbia scheme being recommended by this Commission?

MR. SINCLAIR: I wonder if my friend would say, when he says "the British Columbia scheme", does he mean the scheme put forward by Dr. Hughes, or the British Columbia scheme as put before the Commission by Dr. Hughes as amended by Dr. Brazier? This is where the witness has said he has had difficulty, and he has said it in his submission.

MR. BRAZIER: I cannot appreciate that Mr. Roberts has any difficulty at all.

Q. I will put it as briefly as I can to you: the British Columbia scheme is that no rate should be less than variable cost -- out-of-pocket costs?

A. That is right.

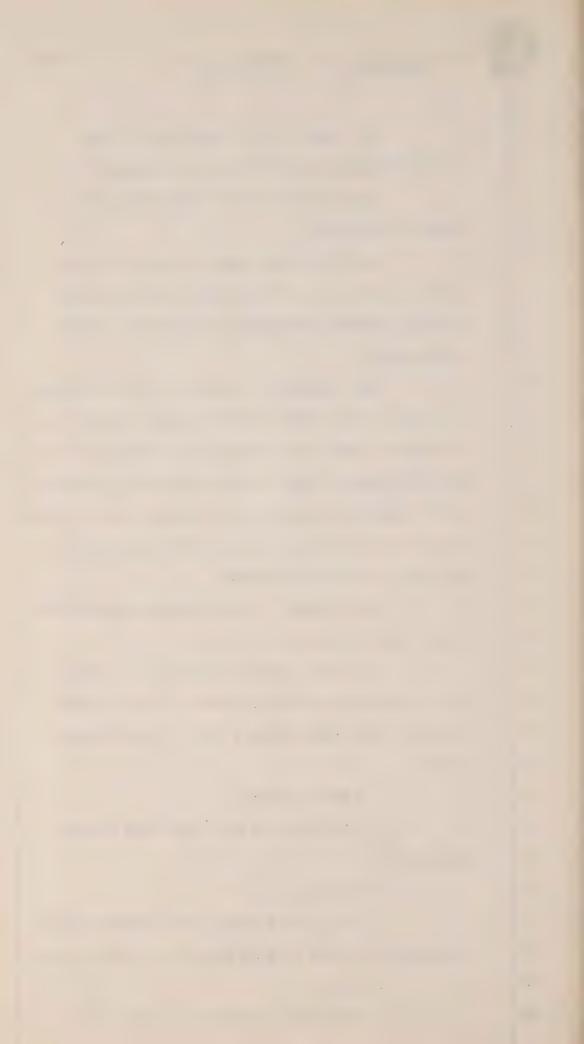
Q. And you have no rates today that are that way?

A. Exactly.

Q. So, to put that in the statute as the minimum rate - you have no objection to that at all?

A. No.

Q. As far as competitive traffic is





## ANGUS. STONEHOUSE & CO. LTD. Roberts, cr.ex. TORONTO. ONTARIO (Brazier)

concerned we say you can do what you want -- no ceiling?

A. That is right.

Q. So far as "captive" traffic is concerned the ceiling will either be fully distributed costs or fully distributed costs plus something over and above, which amount would remain constant except when your costs went up, and then that ceiling would move up with the costs.

MR. SINCLAIR: Would my friend tell the witness how one measures "something"?

MR. BRAZIER: Something?

MR. SINCLAIR: Yes, the "something over".

MR. BRAZIER: Well, we are going to leave that to the Board of Transport Commissioners. This may have to be 10% or it may have to be 15%.

MR. SINCLAIR: But what is going to be the guide? This is where there is a mix-up, if I may say so, Mr. Chairman, and this happened before, and Mr. Roberts has said he does not really know where this is going to be if the ceiling is fixed at such a high level as to anticipate the changes in various things that have to be looked at for a period — and I think Mr. Brazier said five years. That is one thing, but if he is going to do it on another basis, this is what we do not understand.

THE CHAIRMAN: Well, that has been advanced.

MR. BRAZIER: Q. Let us look at it on a
basis of 110% of fully distributed costs; that is





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going to be the ceiling -- 110%, fully distributed costs. So, if your fully distributed costs go up at any time, then in actual amount 110 goes up too -- the ceiling goes up?

A. Yes.

Q. You say a ceiling such as that will mean a loss of revenue to the Canadian Pacific Railway?

A. I would say, yes.

Q. And following that, the further fact is that the C.P.R. made no attempt to advise the Commission what the loss of revenue would be?

A. As I said to you, this is a tremendous job to evaluate your scheme because, after all, the factors that are involved in it are line haul costs, terminal costs and route costs and they vary according to distance and according to route and according to the type of route — branch line versus branch line and main line — and the type of terminal.

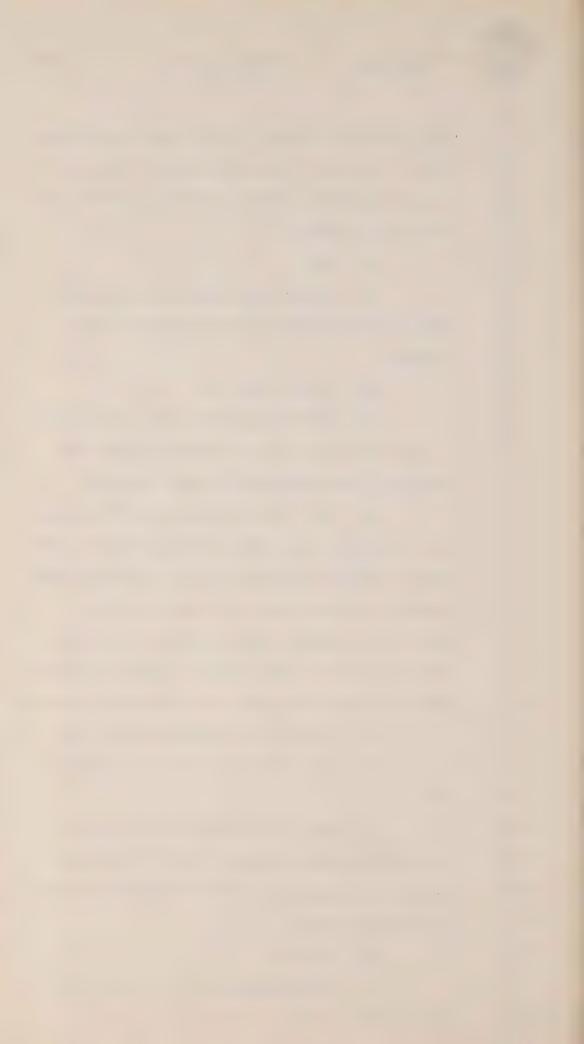
Q. Could they be averaged out at all?

A. I do not know. I am not a cost man,

Q. The big criticism, the important criticism you have to make, I take it, on the B.C. scheme is its impact on the financial soundness of railway operations?

A. No, sir.

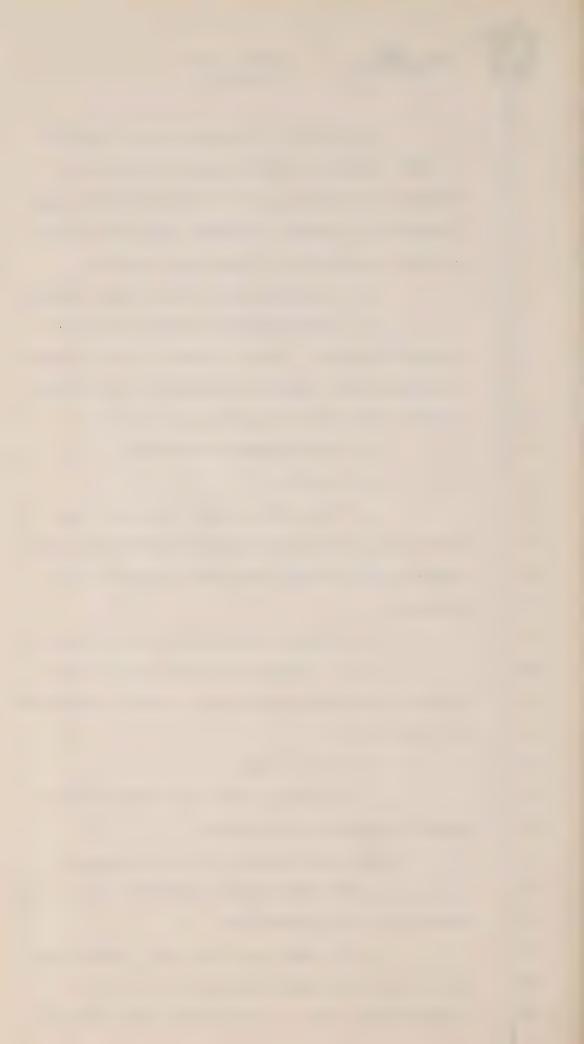
Q. Which phrase you use on page 43 of your brief?



Roberts, er.ex. (Brazier)

A	. No, sir.	There is	also the	question
of what I c	onsider would	d be conti	nual argu	ment as
between the	shippers on	the rails	ay and th	ne railways
themselves	as to what co	onstitutes	oompeti	tive traffic
and what co	nstitutes no	n-competit	ive traff	fic.

- Q. You think that is an insoluble problem?
- A. I think it would certainly be quite a difficult problem. I think we would all be down here in Ottawa before the Board arguing this point twelve months of the year, or pretty close to it.
  - Q. Twelve months of the year?
  - A. Yes, sir.
- Q. Then I put it that if you have that difficulty, then equally as great a difficulty is the impact on the financial soundness of the railway operation?
  - A. That is a possibility we must consider.
- Q. As you have described it to me, the railway is becoming more and more and more competetive as years go by?
  - A. That is right.
- Q. And today it may have reached a point where everything is competitive?
  - A. Well, competitive in what respect?
- Q. The rates become competitive -- all your rates will become competitive?
- A. No. When you term a rate "competitive" it is competitive either with another mode of transportation and, as I said before, the measure of



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your rates can make the particular movements
susceptible to a substitute product or through
different sources of supply. These are the factors
we have to contend with.

- Q. And these competitive factors are going to continue to increase, are they not, as you see them at the present time?
  - A. There will be an increase in competition.
- Q. What are the railways going to do when everything becomes a competitive rate? Where are they going to get -- they do not earn their permissive level of earnings -- what are they going to do then for additional revenue?
- A. If we get the statutory grain at a proper level, if we, through technological improvements such as the elimination of firemen on diesels, a reduction in train crew minimum -- the minimum train crew requirements -- increase of certain rates such as the "at and east" grain rates ---
  - Q. And elimination of passenger losses?
- A. And elimination of passenger losses, yes, we will work towards that; and in addition I think there is a lot of basic tonnage that is going to move out of western Canada from now on, such as the sulphur and the potash and the coal; there is a lot of rasic tonnage there that is going to move out of western Canada in years to come.
- Q. And when all those factors have been taken care of, and the railway is completely competitive

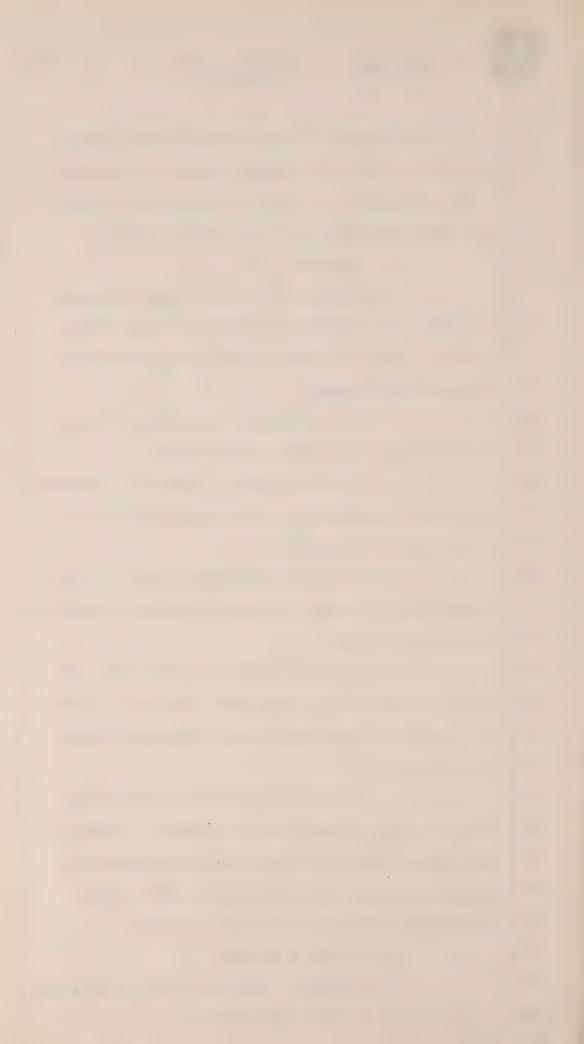


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-- it can no longer be charged as having any monopoly in railway traffic, or transportation; it is entirely a free enterprise, not subject to government control in any way -- how would you get additional revenue?

A. I am sorry ...

- Q. If your rates were not high enough, and you have got a completely competitive transportation system: can you envisage a completely competitive transportation system?
- A. Well, so far as I am concerned I cannot see the thing being static to that extent.
- Q. I would not think -- "static", that might be quite a long distance in the future, but it is a possibility of the future?
- A. Well, it is a possibility, but I do not think that it is going to happen in the next few years all of these things.
- Q. You do not think the railways are ever going to become a completely free enterprise and have to look after themselves and get their revenue as and when they can?
- A. I do not think you can do that because you are going to have to have a ceiling -- I mean, if for nothing else but for the selected psychological effect it has on people who ship over the railway, I think you are going to have that ceiling.
  - Q. You want a ceiling?
- A. I think you will have that; you will have a ceiling and you will have a floor.



## Roberts, cr.ex. (Brazier)

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- Even when it becomes competitive?
- A. I think so.

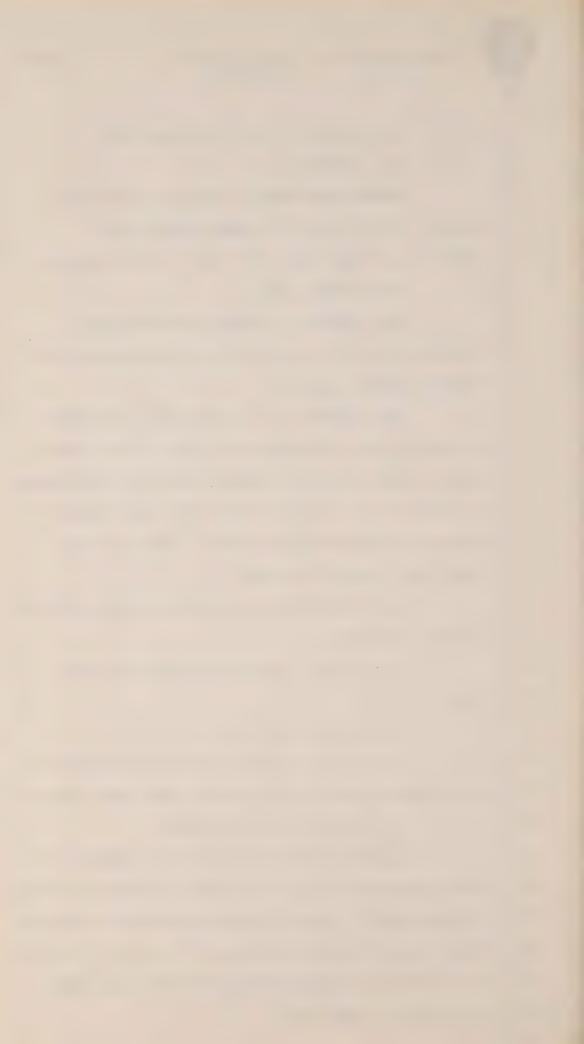
COMMISSIONER GOBEIL: What did you ask, Mr. Brazier? Did you ask if he could envisage that eventually we would have 100% traffic being competitive:

MR. BRAZIER: Yes.

MR. SINCLAIR: And 100% free enterprise transportation system -- that is, if somebody buys the Canadian National Railways.

MR. BRAZIER: Q. The situation I envisage is a completely free enterprise, and they are just making what is being considered a proper return for the railways, and the wages go up \$20 million: what would they do if they are a free enterprise company? How would they absorb that increase in costs?

- A. The same as the department store: we would increase our prices.
- Q. Would you increase them as much as you could?
  - A. That is right.
- But if you could not increase them as much as you wanted to get the full amount, what would you do?
  - We would have to cut back.
- That brings me to one other important and rather fundamental thing in the railway approach to these problems today: I take it from the evidence you gave Mr. Cooper today it is the intention of the C.P.R. to remain in all fields of transportation provided it can make some profit by doing so?



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A. Yes, sir.

Q. Do you know whether any consideration has ever been given to concentrating in one branch of the transportation business and making more money than they would otherwise -- mass transportation over long distances?

A. Not to my knowledge. All of these different methods of transportation that we are in complement each other. For example, our ships on the Atlantic, our Beaver ships, feed freight into the railway, and we feed freight into it. The trucks complement the railway.

Q. So, you are trying to adjust the plant which you have today to the changed conditions and continue on, as one emirent counsel described it at one time, as a transportation drug store?

MR. SINCLAIR: He could not have been very seminent. Drug stores sell ice cream and we have not had any for a long time.

THE WITNESS: Let us say we are a complete transportation service.

MR. BRAZIER: Q. And no intention of changing, so far as you are concerned?

A. Not so far as I am concerned.

--- Adjournment ---

